Audit Completion Report - Draft

Manchester City Council
Year ended 31 March 2021

July 2022

mazars

Contents

Members of the Audit Committee
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18 July 2022

Dear Audit Committee Members

Draft Audit Completion Report – Year ended 31 March 2021

We are pleased to present our draft Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions to date.

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 which we presented on 15 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate. We would like to express our 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

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks, key audit matters and areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

- Valuation of Council and Group Land & Buildings and Investment Property
- Valuation of the Council's and Group's Defined Benefit Pension Liability

Section 4 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Consolidation of group financial statements.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; of which unadjusted misstatements total £19.3m. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At the time of preparing this report there are some matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through a follow up letter. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion

Based on the work completed we would anticipate issuing an unqualified opinion, without modification, on the financial statements. However we report in section 2, that there is an outstanding national technical issue in respect of the valuation of infrastructure assets. The solution to this issue is subject to discussion and consultation nationally, and the way forward is not yet known. This issue has the potential to impact on our audit opinion on the 2020/21 accounts. We will update the Committee further as more information is available.

Value for Money

We have completed our value for money arrangements work. We have not identified significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our value for money arrangements work is provided in section 7 of this report.

Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to determine is any work is required in this area until such instructions have been received.

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 received correspondence and questions from a member of the public. We have reviewed the matters raised and have concluded there is no further audit action required.

1. Executive summary

COVID-19 impacts

The impact of the COVID-19 pandemic on the audit was significant for a second audit year. Although we have had the full co-operation of the finance team and Council management through the audit, the remote working of our audit team and the Council's staff has inevitably meant that the audit work took longer to complete and finalise than would ordinarily be the case.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is nearing completion. The outstanding matters are detailed below. Our audit work is subject to final engagement partner review.

Audit area	Status	Description of the outstanding matters
Property, Plant & Equipment – Infrastructure Assets	Red	CIPFA have consulted on a proposed solution to the identified national issue on accounting for infrastructure assets. There hasn't yet been a published agreed outcome from the consultation. When the agreed outcome is communicated, the Council will need to consider what additional work is necessary with regards to its infrastructure assets. Once the Council has completed any additional work, we will need to apply audit procedures to the infrastructure asset valuations in order to conclude on the material accuracy of the disclosed values.
Group consolidation	Green	We are completing our final reviews of the adjusted group financial statements to confirm that the adjustments have been fully and accurately processed.
Financial statements, Annual Governance Statement and letter of representation	Green	The Council have updated their format and structure of the accounts. We are completing our review of the updated structure including checking the amendments made to the accounts. We will complete our final review of the financial statements upon receipt of the signed version of the accounts and letter of representation at the end of the audit.

Red: Likely to result in material adjustment or significant change to disclosures within the financial statements.

Amber: Potential to result in material adjustment or significant change to disclosures within the financial statements.

Green: Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to Audit Committee in June 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £39.1m for the Group financial statements and £32.9m for the Council single-entity statements using a benchmark of 1.75% of gross expenditure at the Surplus/Deficit at Net Cost of Services level.

Our updated assessment of materiality, based on the draft financial statements and qualitative factors is £36.513m for the Group financial statements and £31.577m for the Council single-entity statements using the same benchmark.

Service organisations

We set out in our Audit Strategy Memorandum that there were no service organisations used by the Council which impact upon our planned audit approach. We confirm there have been no changes to those arrangements during the audit.

Use of experts

We set out in our Audit Strategy Memorandum our planned use of experts to assist in our audit procedures. We confirm there have been no changes to those arrangements during the audit

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 and MCC internal valuers	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	N/A – local audit team

3. Audit approach

Group audit approach

The Council's group structure for 2020/21 consolidated 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 obtained 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 reflected the size and complexity of the transactions from the two companies that are consolidated into the Council's Group financial statements. We considered that MAHL is a financially significant component and that our significant risk relating to the Pension Liability is a risk that applies to MAHL as well as the Council. We do not consider that DML is a financial significant component and did not identify any significant risks to the group audit in DML.

Our audit approach was to obtain assurance on the audit of MAHL from their external auditor, KPMG LLP ("the component auditor"). We issued group audit instructions to the component auditor and liaised with them through their external audit. After the conclusion of their audit of MAHL we reviewed their audit files to obtain assurance on the accounting entries of which the Council consolidates its share. For DML we carried out group-level analytical procedures. The table below summarises our planned group audit approach.

Group component	Approach adopted	Key points or other matters to report
Manchester City Council		The Mazars audit team undertook the full audit of the Council
Manchester Airport Holdings Ltd		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. We issued group audit instructions to the auditor and reviewed their audit file to document and conclude for our group audit purposes, their audit work, findings and conclusions.
Destination Manchester Ltd		We concluded that this component is not significant. We undertook desktop group analytical procedures on the financial information prepared for consolidation.

Full audit
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality

Audit of balances and/or disclosures
Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality

Specific audit procedures
Performance of specific audit procedures on the component's financial information

Review procedures
Review of the component's financial information prepared for group reporting purposes using the component materiality assigned

3. Audit approach

The table below summarises our significant risks and other areas of audit focus. The key findings from our audit work in these areas are detailed in section 4.

	Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
Significant risks	Management override of controls	●				Substantive testing	No	No	There are no matters to bring to the Committee's attention at this stage.
Significant risks	Valuation of Council and Group Land & Buildings & Investment Property		●	●	●	Substantive testing	Yes	Yes	Our work on the Council's valuation of its land & buildings and investment property identified errors in the valuations. Most of these have been adjusted by management. The remaining unadjusted errors are not material.
Significant risks	Valuation of the Council and Group defined benefit pension liability		●	●	●	Substantive testing	No	Yes	Our work on the Council's net pension liability identified a material understatement of the pension assets based on the actuarial estimate of the return on assets in the final quarter of the year. The Council has obtained an updated report and amended the pension assets.
Key areas of management judgement and enhanced risks	Consolidation of group financial statements		●	●		Substantive testing	No	Yes	Our work on the Council's consolidation process identified some non-material adjustments to the consolidated amounts which impacted on the Group CIES, Balance Sheet and Cash Flow Statement. The Council has amended the financial statements for these.

04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
  - why the matter was considered;
  - 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 the auditor’s response to those risks;
  - where relevant, key observations arising with respect to those risks; and
  - a clear reference to the relevant disclosures in the financial statements.
  - if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters 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 20 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.

4. Significant findings

Key audit matters

Valuation of Council Property, Plant & Equipment

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 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 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. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. 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.

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 our audit addressed the key audit matter and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the Council's 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.
- For a sample of the valuations, comparing the valuation to our valuation expert's estimate of the valuation.
- 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.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.

The work carried out identified material and non-material adjustments were required to the financial statements for some of the asset valuations we tested.

In addition we identified the Council's approach to valuing its assets not formally valued in 2020/21 has led to a material understatement of the asset values.

The Council obtained updated valuation reports, carried out additional work where required, and has made the adjustments as set out in section 6.

4. Significant findings

Key audit matters

Valuation of investment properties

Description of the key audit matter

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. The valuation of Investment Property 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. The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.

How our audit addressed the key audit matter and our observations

Our audit procedures included:

- 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 assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuers.
- For a sample of the valuations, comparing the valuation to our valuation expert's estimate of the valuation.
- Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.

The work carried out identified material and non-material adjustments were required to the financial statements for some of the investment property valuations we tested.

The Council has made the adjustments as set out in section 6.

The remaining amounts not adjusted are not material individually or collectively.

4. Significant findings

Key audit matters

Valuation of the Council's and the Group's defined benefit pension liability

Description of the key audit matter

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.

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.

How our audit addressed the key audit matter and our observations

Our audit procedures included:

- 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 and the Group components.
- 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 and the Group's share of Pension Fund assets.
- Reviewing the actuarial allocation of Pension Fund assets to the Council and the Group by the actuary, including comparing the Council's and the Group'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 actuarial valuation reports provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.

The work carried out identified that the Council's pension asset was materially understated as a result of the actuary estimating the pension asset returns for the final quarter of the year.

The Council obtained an updated actuarial report based on the full year Pension Fund asset valuations and has amended the pension asset to reflect the updated values.

4. Significant findings

Significant risks

Management override of controls	**Description of the risk** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 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 have completed our work on the Council's journals and there are no matters to bring to the Committee's attention. Our work on the management estimates, other than those reported elsewhere in this section, did not identify any significant matters to bring to the Committee's attention. We reviewed the Council's provision of loan support to Manchester Airport in 2020/21 and did not identify any matters to bring to the Committee's attention.

4. Significant findings

Key areas of management judgement

Consolidation of group financial statements	**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 detailed approach to auditing the Group Financial Statements has been detailed in section 3. We complemented this work by reviewing the Council's Group consolidation process. In particular we reviewed the Council's judgements relating to the entities that are consolidated into the Group Financial Statements, and we reviewed and tested the consolidation adjustments made in bringing those group entities into the Group Financial Statements
	Audit conclusion Our work identified non-material errors in the consolidation adjustments. The Council carried out additional work to recalculate the consolidation adjustments and made the relevant amendments in the financial statements.

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 July 2021 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. We have maintained a good working relationship with the Council finance officers who have continued to assist our audit and have been helpful in answering our detailed audit queries.

Significant matters discussed with management

During the audit we maintained a regular dialogue with Council officers. Among the matters discussed through these conversations were:

Accounting treatment for the Council's loan made to Manchester Airport in the year

We discussed the Council's treatment of its loan as capital expenditure in the context of the Capital Financing regulations and the specific requirements to be met in order to treat loans to other organisations as capital expenditure. The Council provided a detailed explanation and supporting evidence to confirm the loan was provided for capital purposes and the expenditure incurred by the Airport would have been capital had the Council incurred it itself.

Impairments of financial assets

We discussed the Council's approach in considering impairments of its financial assets and in particular those impacted by the Covid-19 pandemic. We obtained explanations and evidence to support the Council's approach to impairing its assets including those assets, such as the loans to Manchester Airport, which it has not impaired.

Accounting treatment of government grants

The Council has received material amounts of government grant income in the year, particularly relating to the government's financial support to the Council and business in response to the impact of Covid-19. We had discussions with the Council in respect of their consideration of whether the Council was acting as an agent of the government or as a principal and whether there were any grant conditions which the Council should take into account in recognising the income in its accounts.

Accounting for cash and bank balances

We discussed the Council's treatment of its cash and bank balances. In particular this covered:

- The Council's treatment of items received and paid on 31 March 2021 which were not correctly accounted for in the financial statements. This issue led to the bank balance being understated by £5.7m, the short term debtors balance being overstated by £33.2m and the short term creditors balance being overstated by £27.4m.
- The Council's accounting treatment of a bank account for looked after children and the related reconciliation of Council imprest bank accounts. A control weakness, reported in section 5, occurred which resulted in amounts being transferred wrongly into a looked after children bank account, rather than a Council imprest account. The Council bank balance was consequently understated by £84k.

Related party transactions

We discussed the Council's approach to identifying its related parties and the transactions with those parties. As a result of those discussions the Council carried out further work, and identified some additional related parties and transactions. These were amended in the updated financial statements.

Payment of members allowances

Information was brought to our attention by a member of the public about the Council's approach to paying members allowances in certain circumstances. We followed up the reasons why the Council had paid both the Basic Allowance (BA) and the Special Responsibility Allowance (SRA) to a member.

Following our work, we are satisfied the Council had no grounds to stop payment of the BA.

It is clear that, given the circumstances, the member concerned was no longer required to undertake the responsibilities for which the SRA was paid. However, neither the Monitoring Officer nor the Chief Executive were informed that the SRA should be stopped, or paid to a different member. Without such an instruction, officers had no basis to stop the payment.

Given the relatively low value of the allowance, and the unusual circumstances, we have concluded we do not need to exercise our formal reporting responsibilities.

4. Significant findings

Significant difficulties during the audit

Our audit was conducted remotely due to the continued impact of the Covid-19 pandemic. While there are some areas of efficiency, auditing remotely provides significant challenges for the audit team and the Council.

As reported elsewhere in this report our audit identified a number of issues and errors. Other than these matters, we did not encounter any significant difficulties. We are pleased to report we continued to have the full co-operation of management, despite the length and complexity of the 2020/21 audit.

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 2020/21 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 received questions from one member of the public. We have completed our work and have concluded that there are no material impacts on the 2020/21 financial statements and no matters to report to the Committee.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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.	4
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.	2

5. Internal control recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

The Council wrongly transferred cash intended to reimburse a Council imprest account, into an account relating to looked after children who are on remand. The transfer was identified by the Council in responding to routine audit enquiries relating to the Council's bank accounts.
There were inadequate controls to prevent the transfer of imprest reimbursements being made to incorrect accounts. The initial control weakness was compounded by a weakness in the reconciliation of the imprest accounts which did not identify that the account was overdrawn by the amounts transferred through 2020/21.

Potential effects

The control weakness relating to the incorrect transfer of cash funds has resulted in the Council providing £84k of cash to a different account which is unrelated to the imprest accounting.
The control weakness relating to the imprest account reconciliations has resulted in the initial error not being identified in order for timely corrective action to be taken.

Recommendation

a) Ensure that approval for setting up or amending imprest reimbursement bank instructions include senior officer review and approval.
b) Ensure that imprest accounts are reconciled monthly and that the reconciliations are subject to timely review by a senior officer.

Management response

Recommendations agreed and implemented.

- Bank reconciliations for all imprest accounts have been completed at 31 March 2022 and will continue to be completed each time a reimbursement of the accounts are requested
- Internal Audit have undertaken a piece of work on this issue and whilst they consider that the associated risk of material error is low, an audit review of the design and operation of controls over imprest accounts would be appropriate. This will be added to the 2022/23 audit plan.

5. Internal control recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

The Council's closedown processes include processing adjustments in the general ledger to 'write-back' transactions that are received in, and paid from, the two main bank accounts on 31 March 2021. This process was omitted in 2020/21. The omission was not identified until after the draft financial statements were produced.

Potential effects

The impact of this process being omitted was that there were material misstatements in the bank, short term debtors and short term creditors balances in the draft financial statements.

Recommendation

Ensure that closedown processes in 2021/22 include the correct processing of adjustments in the general ledger to reflect transactions received in and paid from the bank on 31 March 2022.

Management response

Recommendation agreed and implemented
The cash, debtors and creditor adjustments that were excluded from the draft accounts have been corrected in the accounts. It is acknowledged that this omission should have been picked up as part of the quality assurance process by checking that the bank balances in the accounts agreed to the 31 March bank statements.
For 2021/22 there has been wider involvement in this work from the Treasury Management Team so there is no longer a single point of failure. For 2021/22 this work has already been completed and the Chief Accountant has ensured that the bank balances on SAP agree to bank statements and the income suspense accounts have been cleared to nil.

Description of deficiency

In carrying out the land & buildings and investment property valuations instructed by the Council, the Council's external valuer is dependent on obtaining sufficient and appropriate information from the Council. In some cases in 2020/21 the information provided to the valuer was insufficient to enable them to produce a valuation compliant with the requirements of financial reporting standards and the CIPFA Code.
In addition the Council's review and challenge of the output from the valuer did not identify issues with the valuation methodology and assumptions for some assets.

Potential effects

The valuations of land & buildings and investment property are significant and complex accounting estimates. The impact of incomplete or inaccurate information increases the likelihood of material inaccuracies in the valuation of the Council's assets.

Recommendation

a) The Council's finance team should manage and coordinate the valuation process, ensuring that other Council departments provide the required information to the external valuer on a timely basis.
b) The Council should review and challenge the output from the external valuer.

Management response

Recommendations agreed
Discussions have been undertaken with the Council's external valuers with the aim of improving the evidence provided and justification of assumptions used in future valuation reports including the information they require from council officers and external sources.
In addition, it is intended that there will be more quality assurance of the valuations by Corporate Finance before they are used in the 2021/22 accounts.

5. Internal control recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

The Council has a 5 year rolling programme for revaluing its operational land & buildings. This results in significant numbers and values of assets not being formally valued each year. In order to ensure the value of these assets at the year end remains materially accurate the Council requests its external valuer to carry out work to consider the change in valuation for these assets since they were last valued. In 2020/21 the value of assets not formally valued in year was over £900m. The work initially completed by the Council and its valuer did not cover all £900m and was not sufficiently detailed to conclude that the values remained materially accurate. Subsequent work carried out by the Council and its valuer identified the values were understated by a material amount.

Potential effects

The valuation of the assets not formally valued in year can be significant values, and the previous valuation could be up to four year ago. The likelihood of values not remaining materially correct is greater, and that impact did occur in 2020/21.

Recommendation

Ensure that the consideration of the value of land & buildings not formally valued in year includes all such assets, and is sufficiently detailed to provide sufficient evidence of the current value of such assets.

Management response

Recommendation agreed.
Valuations will be completed in 2021/22 which are in addition to the 5 year rolling programme; initially to include some of the high value specialised assets held by the Council. This scope will then be reviewed annually.
For 2021/22 a detailed analysis of the market movements ' indexation' will be completed taking account of the previous recommendations from Mazars. Further, following discussion with Mazars the agreed revised methodology will be followed for the 2021/22 and future accounts.

5. Internal control recommendations

Other recommendations in internal control – Level 2

Description of deficiency

Our testing of expenditure items in 2020/21 included the purchase of personal protective equipment (PPE) from June 2020, during the national lockdown, and during a period where PPE was in short supply. The PPE purchase we tested was for £765k. The purchase was made via a purchase card. The evidence of officer approval of the purchase was not available for audit. Officers explained this was because of the extraordinary circumstances of the period, and consider the approval may have been provided through a message which had not been retained. The issue was further impacted by the Council changing its IT messaging system since the purchase such that access to old messages was not available.

Potential effects

While we acknowledge the extraordinary circumstances of the time of this purchase, reflecting the urgent need to purchase PPE and to distribute it to Council staff, the non-retention of approval evidence leads to the Council not being able to confirm purchases were made according to the Council's control framework.

Recommendation

Ensure all purchases, especially those made by purchase card, are supported by a retained audit trail of evidence of approval of the order/payment.

Management response

Recommendation agreed.
The approach to purchasing was overseen by the Deputy Chief Executive, Deputy Treasurer and Head of Audit & Risk Management and involved staff from procurement, finance, health & safety and the PPE Hub. This ensured that there were lots of check and challenge in the process of identifying, purchasing, receiving, distributing and reconciling PPE during the pandemic. Officers acknowledge and accept that the evidence of approval of individual items in messages had not been retained and will ensure that evidence is retained for any future urgent purchases using purchase cards.

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

Our review of IT controls identified that the Council had not tested the restoration of backups during 2020/21.

Potential effects

Not testing the restoration of backups means exposes the Council to the risk that backups may not restore fully and accurately when needed, and that issues are not identified and addressed in a test environment.

Recommendation

Establish a policy of regular, at least annual, testing of the restoration of backups. Document the test results and the investigation and resolution of identified issues.

Management response

IT control of test restoration of backups is in place.
IT have an annual workstream which requires us to restore from production to QA systems and from Production to PS1 systems between October & November.
Additionally each August SAP support team look at whether a successful restore has taken place in the last 6 months. If no actual restore has taken place we will then schedule a test backup & restore.

Description of deficiency

During our audit of the Council's IT controls we identified that during 2020/21 three IT users with 'super user access did not have 'user change forms' completed to support the change in access request. The requests were supported by emails.

Potential effects

The potential effects include there being unidentified inappropriate access to IT resources, and a lack of audit trail to support access permissions.

Recommendation

Ensure all requests for user access changes apply the Council's user access process and are documented. Approval should be sought and documented for 'super user' access.

Management response

IT control of Super User ID is managed by SAP Team Leads and a record is kept of the relevant email trail for audit purposes. This access is used rarely, usually out of hours for an emergency need. The last use was 19/10/21.
Checks in place to prevent inappropriate access include:

- Officers requesting this access are responsible for the availability and support of all SAP systems, therefore already a high level user.
- A daily job runs which looks for any use of SUPER User ID accounts. Should there be any an email is sent to record why the use was necessary.
- We review annually these super user IDs and currently two people have the ability to access this type of ID.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £408,000. This table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust. The following page outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short-term debtors			10,252	
	Cr: Short-term creditors				10,252
	The Council received grant income funding after 31 March 2021 which related to 2020/21 but had not been accrued into that year. This related to grant funding where the Council acts as an agent for other councils and passes the funding on to those other councils. Our audit testing identified one receipt in April 2021 for £0.7m and the Council identified a further receipt for £0.8m. This has understated the short-term debtors and short-term creditors by the same amount with no impact on the Council's CIES. Because we identified this error in our sample testing, in line with our approach, we extrapolated the known error of £1.5m over the remaining untested grant income. The Council has amended the actual error, but the extrapolated impact of £10.2m has not been amended as it relates to an audit extrapolation.				
2	Dr: Unusable Reserves			7,014	
	Cr: Investment Properties				7,014
	Our valuation expert has reviewed the methodology and assumptions used in valuing the Council's investment properties. Our conclusion from that work is that there are three assets whose valuation is above the upper-end our expected valuation range. The total overstatement of those two assets is £7m.				
3	Dr: Group LT Investment in Joint Venture			1,988	
	Cr: Group I&E Reserve				1,988
	In calculating the Council's share of Manchester Airport Holdings Limited (MAHL) equity the Council should remove the impact of IFRS16 from the MAHL accounts. This is because IFRS16 does not yet apply to the Council. The Council did not make this adjustment and, as a result, the Council's Group Balance Sheet is understated by £1.9m with a corresponding understatement of the Group I&E Reserve.				
	Total unadjusted misstatements	**0**	**0**	**19,254**	**19,254**

6. Summary of misstatements

Adjusted misstatements

This tables, continued on the following pages sets out the significant misstatements that management have adjusted in the financial statements.

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net Pension Liability			24,142	
	Cr: Pension Reserve				24,142
	The actuarial valuation was initially based on estimated final quarter return on pension fund assets. Our analysis indicated this could be materially inaccurate so the Council obtained an updated report from their actuary. Based on the full year actual returns on assets the Pension Assets increased by £24.1m with a corresponding reduction in the negative pension reserve. This amendment also impacts on the Other Comprehensive Income in the CIES.				
2	Dr: Unusable Reserves			21,730	
	Cr: Property, Plant & Equipment				21,730
	Following audit challenge, the Council's valuers revised their valuation for an operational land & building reducing the valuation by £21m with a corresponding reduction in the unusable reserves.				
3	Dr: Property, Plant & Equipment			31,563	
	Cr: Unusable Reserves				31,563
	Following audit enquiries the Council, and their external valuer, carried out additional work to more accurately estimate the valuation of assets not formally valued in 2020/21. The valuations in the draft accounts were understated by £31.5m. The unusable reserves were understated by the same amount.				
4	Dr: Unusable Reserves			3,565	
	Cr: Investment Properties				3,565
	The Council had included the value of land for an investment property in its balances twice. The corresponding adjustment reduces the unusable reserves.				

6. Summary of misstatements

Adjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Unusable Reserves			2,850	
	Cr: Investment Properties				2,850
	Following audit challenge, the Council's valuers revised their valuation for two investment properties, reducing the valuations by £2.8m with a corresponding reduction in the Capital Adjustment Account.				
6	Dr: Investment Properties			7,591	
	Cr: Unusable Reserves				7,591
	The Council received additional income from Manchester Airport Holdings Ltd in 2020/21 arising from a new lease for land which relates to the airport's investment properties. The additional income had not been notified to the Council's valuers in time for the valuation exercise. The Council obtained an updated valuation report which increased the value of the Council's share of the airport land of £7.6m. This gain on revaluation is accounted for in the unusable reserves.				
7	Dr: Property, Plant & Equipment – Surplus Assets			4,000	
	Cr: Assets Held for Sale				4,000
	The Council had misclassified an asset which was not expected to be sold within twelve months of the year end as an asset held for sale. This asset has not yet been sold and no sale is imminent. The asset was reclassified as a non-current asset – surplus asset.				

6. Summary of misstatements

Adjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
8	Dr: Unusable Reserves			19,450	
	Cr: Net Cost of Services expenditure		20,626		
	Cr: Financing & Investment expenditure	1,176			
	The changes in operational and investment property asset valuations reported elsewhere in this table also impact on the CIES. The additional depreciation and revaluation losses in the CIES increased the Total Comprehensive expenditure by £27m.				
9	Dr: Cash & cash equivalents			5,741	
	Cr: Short-term debtors				33,187
	Dr: Short-term creditors			27,446	
	The Council identified that the cash balance in the draft statements did not include receipts from 31 March 2021 that were not already included in the cash book, i.e. receipts into the bank on that day which were not known or expected. These items increased the cash balance in the financial statements and reduced both the short-term debtors and creditors balances.				
10	Dr: Short-term debtors			1,557	
	Cr: Short-term creditors				1,557
	The Council received grant income funding after 31 March 2021 which related to 2020/21 but had not been accrued into that year. This related to grant funding that the Council acts entirely as an agent for other councils and passes the funding to those other councils. Our audit testing identified one receipt in April 2021 for £0.7m and the Council identified a further receipt for £0.8m. This has understated the short-term debtors and short-term creditors by the same amount. Because we identified this error in our sample testing, in line with our audit approach, we extrapolated the known error of £1.5m over the remaining untested grant income. The Council has amended for the actual error. The remaining £10.2m has not been amended and is included in the unadjusted misstatements table on page 30.				

6. Summary of misstatements

Adjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
11	Dr: Group Short-Term Creditors			1,500	
	Cr: Group Long-Term Debtors				750
	Cr: Group Short-Term Debtors				750
	The Council had omitted to exclude a proportion of the loans provided to DML Ltd from its consolidation of DML. Short-term creditors were overstated by £1.5m and short-term and long-term debtors were both overstated by £750k each				
12	Dr: Group Intangible Assets			4,249	
	Cr: Group I&E Reserve				4,249
	The Council had incorrectly excluded goodwill included in the DML financial statements from its consolidation of DML into the Council's group. Group Intangible Assets and the Group I&E Reserve were both understated by £4.2m				
13	Dr: Group Long Term Investments			3,673	
	Cr: Group I&E Reserve				3,673
	The Council had incorrectly excluded investments of DML included in their financial statements from its consolidation of DML into the Council's group. Group Long Term Investments and the Group I&E Reserve were both understated by £3.6m				
	Total adjusted misstatements	**1,176**	**20,626**	**159,057**	**139,607**

6. Summary of misstatements

Disclosure amendments

The adjustments to the main financial statements on the previous pages in this section also impact on the related notes to the financial statements.

In addition to those amendments, the Council has also made amendments to other disclosure notes. The most significant of these adjustments include:

- **Note 3 – Expenditure & income Analysed by Nature -** amended to be consistent with other notes and disclosures
- **Note 14 – Pooled Funds -** amended to include the entire pooled budget with Manchester CCG rather than just the element relating to the Better Care Fund
- **Note 28 – Assets Held as Lessee** – two leases that had ended were removed from the disclosure note
- **Note 29 – Assets Held as Lessor** – an additional lease with Manchester Airport has been included
- **Note 39 – Financial Instruments** – additional disclosures were included to comply with the CIPFA Code with adjustments made to some of the disclosures
- **Note 43 – Local Government Pension Scheme** – amendments were agreed to the disclosures relating to the Council's up-front pension payment to the Greater Manchester Pension Fund to reflect the treatment through the Movement in Reserves Statement
- **Note 47 – Related Party Transactions** – additional work carried out by the Council following audit challenge identified additional related parties and transactions to disclose. These have been added into the note.

07

Section 07:

Value for Money arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	**38-39**	No	No
Governance	**40-41**	No	No
Improving economy, efficiency and effectiveness	**42**	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability in 2020/21

The Council entered the 2020/21 financial year as the first national lockdown began and immediately faced a significant operational impact to respond to the range of challenges presented by the pandemic. As part of the national response to Covid-19, central government made a series of policy announcements which impacted on the Council. Consequently the Council was at the forefront of efforts to protect local residents, including the most vulnerable, and to support local businesses.

Some of the Government's initiatives to respond to the covid-19 pandemic were supported by additional funding, and so the Council received significant additional funding in 2020/21. This included general grants to support its Covid-19 response of £78.6m, and specific grants of £402.5m of which the Council had discretion over the use of £209.2m. Within the specific grants was the significant funding provided to support local business in line with the government's national initiatives. Taken together, this funding helped the Council to support residents and businesses through the year, and provided immediate funding to help mitigate some of the financial pressures caused by the pandemic. The Council's financial sustainability challenges from the Covid-19 pandemic will continue through the medium term and this places considerable pressure on the Council to maintain effective financial sustainability arrangements.

The Council's financial planning and monitoring arrangements

In March 2020, the Council set a balanced budget for the 2020/21 financial year with a total net budget for Council services of £665m. This required an increase in Council Tax of 3.99% (including 2% Adult Care precept). Throughout the year the Council regularly updated its budget forecast, enabling budgets to remain up-to-date in the fast-changing and uncertain operating environment of the pandemic. The final net budget reported for the year was £871m reflecting the significant Covid-19 funding received through the year. Within the original budget approved in March 2020, the Council had identified a savings requirement of £7.5m alongside a range of initiatives and measures to deliver these reductions.

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities, the Council's Corporate Plan, and the impact on resources of emerging challenges and risks. Where additional resources are required these are scrutinised and challenged before they are included in the budget estimates. Engagement with directorates and members are key parts of the budgeting arrangements, and from our review of the output and discussions with officers, these are detailed and extensive.

The Council reported its revenue outturn position for 2020/21 as an overall underspend of £3.9m. This continues the Council's strong track record of managing its budget through the year, and mitigating the risks and pressures that emerge through the year. The Council provided regular reports of its financial position to Executive through the year. We have reviewed a sample of the reports presented for 2020/21. These reports were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a wide range of other financial measures. The Council follows an established timetable for reporting to Executive which includes reporting to directorate management teams and the strategic management team.

The Council's financial management arrangements were significantly impacted in 2020/21 by the impact of Covid-19. The Council reported that the direct pressures on services and income was over £55m, and the mitigating actions it put in place through the year included delivering additional savings of £17.8m, alongside receiving additional support from GMCA. The Council is keenly aware of the continued impact of Covid-19 on its financial position, and this will require the Council to continue its strong financial management arrangements through the next few years.

The Council has a very significant capital programme, and continues to play a lead role in developing the city. In 2020/21 the final capital budget was £373m. Actual spending against the budget was £335m, reflecting that, although significant progress was made against the various projects, Covid-19 impacted on the delivery of some projects. In 2020/21, the Council as a shareholder in Manchester Airport, along with the other Greater Manchester councils provided capital support to the airport. As well as the routine capital projects the Council undertakes, there a number of large, strategically important projects underway or planned in the near future. The most significant of these are the renovation of the Town Hall (total capital budget of £305m), the Factory project, (total capital budget of £190m), and the Victoria North project (total capital budget of £75m). The size and complexity of the capital programme requires a robust and effective monitoring process to enable the financial impact of the projects to be evaluated and reported promptly to enable timely effective decision making. The capital budget monitoring and reporting mirrors the revenue budget monitoring. We reviewed a sample of these reports and this confirmed they provide timely detailed monitoring reports to key decision makers in the governance structure.

Overall commentary on the Financial Sustainability reporting criteria - continued

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

As part of its budget setting arrangements for 2020/21 the Council commenced its planning for its updated three year financial plan. The planning for 2020/21 recognised the importance of setting a balanced one year budget alongside demonstrating the long term financial resilience of the Council. The approach for 2020/21 reflected the one year settlement announced by the government, and recognised the uncertainty in the medium term funding. A key element of the budget setting process is identifying savings and funding gaps. The budget reporting to Executive and Council provides significant detail on the savings plans, in-year monitoring and outturn delivery at the year end. The budget report to Council in March 2020 set out the detailed savings plans and proposals for each directorate, along with the proposed impact on the Council's reserves until 2023/24.

The Council's budget setting process, which begins in the summer, is a detailed and comprehensive process. There is detailed consultation and discussion with officers and members on the assumptions and principles on which the budget is to be based. As part of the budget setting process, the Council explicitly identifies its savings requirements for the following years through detailed consideration of the budgetary pressures, funding estimates, and impact of national and local initiatives and policies. We reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. Our review confirmed the documents were comprehensive and detailed and the discussions were timely and delivered the intended outcomes to assist with the budget preparation.

Council's arrangements and approach to 2021/22 financial planning

The Council's arrangements for the 2021/22 budget setting process largely followed the arrangements in place for 2020/21.

The budget for 2021/22 was approved at the March 2021 Council meeting. The Council set a balanced budget with a total net budget for Council services of £637m with an increase in Council Tax of 4.99% (including 3% Adult Care precept). The budget planning for 2021/22 recognised the very significant impact on the Council's finances of Covid-19, identifying the financial impact on the Council for 2021/22 at £144m. The budget for 2021/22 included £41m of savings proposals and £185m use of reserves. The high use of reserves in 2021/22 reflects the use of Covid-19 funding received in 2020/21 but which was unspent and added to reserves at the end of 2020/21, to be spent during 2021/22.

We have reviewed the supporting evidence relating to the preparation of the 2021/22 budget and these demonstrate that the arrangements are consistent with the previous year, were detailed and robust, and were properly applied.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Council's risk management and monitoring arrangements

The Council has a well established risk management system in place and embedded in the governance structure of the organisation. The Council has a risk management strategy 2020-2023 which sets out the Council's risk appetite and context to its risk management. The risk management arrangements incorporate service and directorate risk registers informed by detailed assessments of the key risks impacting on each area. These registers inform the Council's corporate risk register which sets out the key strategic and corporate risks. The risk registers apply a risk score alongside the Council's target score for each risk. The register includes the controls in place to mitigate the risks along with other sources of assurance, and enables the Council to manage the risks actively and take action where necessary. We have reviewed the risk management strategy along with examples of risk registers. Our review confirms the strategy is clear, and the registers appear comprehensive, containing sufficient and appropriate detail for Council officers and members to discharge their responsibilities.

The Council reports its risk registers through its governance framework, culminating in reports to the Audit Committee. Our attendance at the Audit Committee meetings has confirmed the Committee understands its role in the risk management framework. It provides challenge to management on the risk register's and corresponding risks and mitigating actions.

The Council has a team of internal auditors, led by the Head of Audit & Risk Management, who provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. The annual Internal Audit plan is ordinarily agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. In 2020/21, the Covid-19 pandemic impacted significantly on Internal Audit's plans, and as a result of cancelled meetings at the start of the pandemic, the Audit Plan was presented to the Committee in July 2020. The audit plan is based on an assessment of risks the Council faces, and is planned to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work is supplemented by ad hoc reviews in respect of suspected irregularities and other work to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach. The Council has comprehensive anti-fraud and corruption policies which are updated as required. In 2020/21 a significant focus of the Council's anti-fraud work was in implementing processes to minimise any loss on business grants by putting in place checks to minimise fraud/ loss before payments were made to businesses.

Internal Audit progress reports are presented to each Audit Committee meeting, including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Audit & Risk Management provides an opinion based on the work completed during the year. For 2020/21 the Head of Audit & Risk Management concluded that a reasonable level of assurance could be given that the Council's overall framework of governance, risk management and control remains appropriate and had been complied with. Whilst this reflected the significant impact of the pandemic, the annual report highlighted the strength of the core governance, risk and control systems.

Throughout the year we have attended all Audit Committee meetings. These meetings have received regular updates on both internal audit progress and risk management. Audit Committee members engage with the reports and challenge the papers and reports which they receive from management, internal audit and external audit.

Council arrangements for budget monitoring and budgetary control

The Council has well established budget monitoring arrangements in place. The Finance service is configured to align to the Council's management portfolio structure. Members of the Finance Team are assigned to specific service areas and work closely with cost centre managers to review, discuss and agree the financial pressures/ issues impacting on specific service areas. At the end of each month, a Portfolio dashboard is prepared which contains all relevant financial information. Forecasts are produced for cost centres, service areas and the whole Portfolio. These are discussed and agreed with relevant Directors and managers.

There is a detailed budget monitoring timetable to which the Finance service works to ensure reports are timely. Overall financial monitoring reports are prepared encompassing the whole Council position for both Capital and Revenue. The format of the reports ensures relevant information is available, and in 2020/21, the reports were adapted to report on the impact of COVID including information on the impact on service costs and income shortfalls, specific grants received including business grants and other grants where the Council acted as an agent. We have reviewed a range of the reports and conclude they are appropriately detailed and comprehensive to provide members with the current financial position and the future challenges and risks ahead.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Council decision making arrangements and control framework

The Council's decision making arrangements are established in the Council Constitution. Decisions are either made by members (Council, Executive, or other decision making committees) or delegated to Executive portfolio leads, or officers. The Constitution sets out clearly the approach to decision making. The Council also has a range of overview and scrutiny committees and sub-groups that challenge and scrutinise Council decisions.

Reports provided to support decision making include an assessment of the revenue and capital financial impacts and other key impact areas such as risk management, legality and equal opportunities.

The Council operates an Audit Committee which has the appropriate status in the organisation to challenge management and obtain assurance on the operation of the internal control framework. The Committee has an agreed workplan and, where necessary, asks management to report on specific internal control issues. This includes asking management to attend meetings to answer questions. The Audit Committee met regularly throughout the year and routinely considered key reports on internal controls.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

The Council's arrangements for assessing performance and evaluating service delivery

The Council prepares performance monitoring and financial monitoring reports which are regularly reported through the year. The monitoring of the achievement of the Corporate Plan priorities is supported by accessible detailed dashboards. These are presented alongside narrative reporting of the actual performance, progress to achieving targets, current and known future challenges and an assessment of how the Council is doing. During 2020/21 this incorporated an explicit reference to how Covid-19 would affect delivery of priorities. The financial monitoring position is reported separately to performance monitoring but both provide a detailed and insightful summary of the Council performance and provide up to date evidence to inform decision making. The monitoring is also used to identify service delivery challenges, for example where increased costs are incurred to address service backlogs or underlying underperformance. Where such issues are highlighted through financial monitoring, the resources required as an investment to address this are identified.

The Council produces a range of value for money analysis, including annual benchmarking of outcomes and unit costs against similar Councils. During 2020/21 the Council commissioned an external financial benchmarking review. The analysis highlighted the Council's areas of strength along with areas where other similar Councils achieve better outcomes with a lower spend. The Council used the output to both inform the budget planning process, and also to undertake detailed work with directorates to identify and deliver improvements in the delivery of value for money. The Council uses benchmarking tools to inform its understanding of its performance. As well as using some off the shelf benchmarking tools, the Council also has a corporate Performance, Research & Intelligence service. This service provides a valuable source of advice on performance monitoring methodologies for projects and directorates, as well as interpreting data and performance monitoring information.

The Council's arrangements for effective partnership working

The Council's key partnerships include a wide range of organisations as is expected for a very large and complex Council. These include service delivery partnerships, statutory partnerships, and commercial partnerships.

The Council monitors its delivery through key partnerships including an ongoing assessment of risk as set out in its Register of Significant Partnerships which is reported to the Audit Committee annually. This summarises the significant partnerships the Council has alongside a rating of assurance the Council considers the partnership arrangements provide. This is informed by discussions and assessments involving the partnership link officer, moderated by Council officers from a range of service areas. As at 31 March 2021 the register included 49 significant partnerships, only one of which was reported as having limited assurance of controls over the partnership, and 36 were rated as having the highest level of assurance.

During 2020/21 the impact of Covid-19 has placed a greater focus on the operation of a number of strategic partnerships, particularly those related to delivery of health and social care responsibilities, and those supporting vulnerable residents.

The Council's arrangements for procurement and commissioning services

The Council's Constitution contains a chapter on the Contract Procurement Rules. This sets out the detailed process that the Council must follow when procuring goods or services. We have reviewed the procedure rules and this confirms they are comprehensive and cover the procedures, the quotation and tender process, using frameworks, post tender evaluation and contract monitoring procedures.

To support procurement, the Council has centralised procurement team. This team provides a key source of procurement expertise. The team are required to be involved in procurement contracts above £30,000 and lead the procurement process in many cases. The Council controls in place to manage procurement effectively include completion of a pre-tender form to evidence the approval for the procurement and that financial and legal requirements have been followed. The support provided by the procurement team includes training to officers involved in the procurement process, enabling a clear common understanding of the approach and compliance requirements. The Council appoints contract managers who have responsibility for managing the contract. Directorates record their contracts in registers to track all the contracts within their portfolio.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

Appendices

A: Independence

B: Other communications

Appendix A: 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.

Appendix B: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Deputy Chief Executive & City Treasurer that Manchester City Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.

Appendix B: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we obtained written representations from management, and the Audit Committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Mazars

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