

Cllr Lanchbury
Chair of the Audit Committee
Manchester City Council
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7 August 2023

Dear Cllr Lanchbury

Conclusion of pending matters– Audit completion report

Following on from the July 2023 Audit Committee meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 18 July 2023. The outstanding matters and the conclusions reached are detailed below:

Matter	Conclusion reached
Post Balance Sheet Events	We have completed our work on the Council's post balance sheet events. The Council have included additional disclosures reflecting the events that have occurred since 31 March 2021 which have materially impacted the Council's financial position. There are no matters to report to the Committee from our work.
Financial statements, Annual Governance Statement and letter of representation	We have received the final signed statements and the signed letter of representation. There are no matters arising to report to the Committee.

Appendix A contains our proposed audit report and opinion. Appendix B contains our additional fees to be requested from Public Sector Audit Appointments. If you wish to discuss these or any other points then please do not hesitate to contact me.

7 August 2023

Yours sincerely

Karen Murray

Karen Murray

Partner

7 August 2023

Appendix A – Proposed Audit Report

See following pages

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Manchester City Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account (HRA) Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of group property assets

We draw attention to note 2 of the Group financial statements, which describes the effects of the Covid-19 pandemic on the valuation of property assets underlying the consolidated value of Manchester Airport Holdings Limited and Destination Manchester Limited. As disclosed in note 2 of the Group financial statements, the Council's external valuer included a 'material valuation uncertainty' declaration within their report. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive & City Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Note 5.1.1 of the financial statements explains how the Deputy Chief Executive & City Treasurer formed their judgement that it is appropriate to adopt the going concern basis of preparation for the Council and the Group.

In accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, our review of management's assessment of going concern was focused on the extent to which there are any indications that the functions of the Council and Group will not continue in operational existence for the foreseeable future.

Our audit procedures to evaluate the City Treasurer & Deputy Chief Executive's assessment of the Council's and the Group's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council's and the Group's ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining an understanding of the relevant controls relating to the Deputy Chief Executive & City Treasurer's going concern assessment;
- making enquiries of the Deputy Chief Executive & City Treasurer to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Council's and the Group's continuation of service; and
- considering whether the Deputy Chief Executive & City Treasurer's assessment is proportionate to the risks associated with going concern for the local government sector.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive & City Treasurer with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures. These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter	How our scope addressed this matter
<p>Valuation of Council Property, Plant and Equipment <i>Note 19a to the financial statements discloses information on the Council's holding of property, plant and equipment (PP&E) which includes £623.1m of Council Dwellings and £1,098.4m of Other Land & Buildings held at current value at 31 March 2021.</i></p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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.

Key audit matter	How our scope addressed this matter
<p>The CIPFA Code of Practice 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.</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.</p>	<ul style="list-style-type: none"> ● Obtaining an understanding of the basis of valuation applied by the valuers in the year. ● Critically assessing the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated. ● Critically assessing 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 ● Comparing the valuations to our valuation expert's estimate of the valuations for a sample of assets. ● Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021. ● Substantively testing for a sample of assets how valuation movements were presented and disclosed in the financial statements. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of land & buildings included in the financial statements is reasonable.</p>
<p>Valuation of Investment Properties</p> <p><i>The Council's Balance Sheet discloses their Investment Properties to be valued at £476.1m at 31 March 2021.</i></p> <p>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.</p>	<p>Our audit procedures included, but were not limited to:</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 instructions to the valuers from the Council. ● Critically assessing the basis of valuation applied by the valuers in the year. ● Critically assessing the appropriateness of the methodology and assumptions adopted

Key audit matter	How our scope addressed this matter
<p>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.</p>	<p>by the Council's valuers for a sample of assets.</p> <ul style="list-style-type: none"> • Comparing the valuations to our valuation expert's estimate of the valuations for a sample of assets. • Sample testing the completeness and accuracy of underlying data used by the valuers as part of their valuations. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of investment properties included in the financial statements is reasonable.</p>
<p>Valuation of the Council's and the Group's Defined Benefit Net Pension Liability</p> <p><i>The Council's and the Group's balance sheet discloses the Council and Group pension liability to be valued at £949.5m at 31 March 2021 and comprises assets of £3,517.6m and liabilities of £4,467.1m.</i></p> <p>The net pension liability represents a material element of the Council and the Group balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's and 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 circumstances. This could have a material impact to the Council and Group net pension liability in 2020/21.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Critically assessing 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 Pension Fund has designed and implemented controls to prevent and detect material misstatement. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate. • Obtaining a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. • Testing 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.

Key audit matter	How our scope addressed this matter
	<ul style="list-style-type: none"> Challenging 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 included comparing them to expected ranges provided by our expert, 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. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Council	Group
Overall materiality	£31.577m	£36.513m
Basis for determining materiality	Materiality has been determined as approximately 1.75% of gross expenditure at the surplus/deficit on provision of services level	
Rationale for benchmark applied	Gross expenditure at the surplus/deficit on provision of services level was chosen as the appropriate benchmark as this is a key measure of financial performance for the Council/Group and for users of the financial statements	
Performance materiality	£22.104m	£25.559m
Reporting threshold	£0.947m	£1.095m

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Deputy Chief Executive & City Treasurer made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Council and Group, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our approach to auditing the Group was based on our understanding of the group structure and an assessment of the significance of individual components to the group financial statements. In summary:

- Full scope audit procedures were carried out on the Council which represents 90.4% of the Group's total assets, 99.6% of the Group's total liabilities, 96.1% of the Group's income and 86.6% of the Group's expenditure.
- Group audit instructions were issued to the auditor of Manchester Airport Holdings Limited in respect of their full scope audit of the Manchester Airport Holdings Limited financial statements. Component materiality of £19.0m was applied to our group audit instructions. Manchester Airport Holdings Limited represents 9.3% of the Group's total assets, 0% of the Group's total liabilities, 3.3% of the Group's income and 12.7% of the Group's expenditure.
- Analytical procedures were performed on Destination Manchester Ltd as a non-significant component included in the Group financial statements.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The Deputy Chief Executive & City Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Deputy Chief Executive & City Treasurer for the financial statements

As explained more fully in the Statement of the Deputy Chief Executive & City Treasurer's Responsibilities, the Deputy Chief Executive & City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Deputy Chief Executive & City Treasurer is also responsible for such internal control as the

Deputy Chief Executive & City Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Deputy Chief Executive & City Treasurer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Deputy Chief Executive & City Treasurer is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Deputy Chief Executive & City Treasurer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;

- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing, reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

We are also required to conclude on whether the Deputy Chief Executive & City Treasurer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in this respect.

Responsibilities of the Council

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

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is three years covering the audit of the financial years ending 31 March 2019 to 31 March 2021.

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

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

Use of the audit report

This report is made solely to the members of Manchester City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Manchester City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Karen Murray, Key Audit Partner
For and on behalf of Mazars LLP
One St Peter's Square
Manchester
M2 3DE
August 2023

Appendix B – Additional fees

Area of work	2019/20 actual fees	2020/21 proposed fees
Planned fee in respect of our work under the Code of Audit Practice	159,519	159,519
Additional fees in respect of recurrent scope changes: Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	39,750	43,750
Additional fees in respect of in-year scope changes: Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	5,500	2,500
Additional fees in respect of additional audit requirements for Manchester CC: Enhanced Audit Reporting	4,500	5,625
Additional fees in respect of value for money work arising from the change in the Code of Audit Practice	-	12,500
Additional fees in respect of auditing infrastructure assets	-	15,000
Additional fees in respect of specific accounting and quality issues in 2020/21: Group consolidation, Valuation of Property, Plant & Equipment/Investment Property, cash and bank balances, journals and Cash Flow statement	-	62,000
Total fees	209,269	300,894