

Auditor's Annual Report

Manchester City Council – year ended 31
March 2022

November 2023



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Manchester City Council ('the Council') for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 16 November 2023. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



Wider reporting responsibilities

The group audit instructions issued by the NAO set a threshold for detailed work on Whole of Government Accounts returns at £2bn., The Council is above the threshold and we will need to complete the detailed work set out in the group audit instructions. We have not commenced this work yet. When we complete our work on the Council's Whole of Government Accounts return we will report to the NAO in line with their instructions and will issue our certificate for the 2021/22 audit of the Council.

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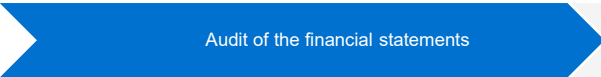
2. Audit of the financial statements

The scope of our audit and the results of our opinion

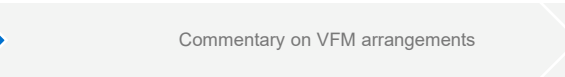
Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 16 November 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

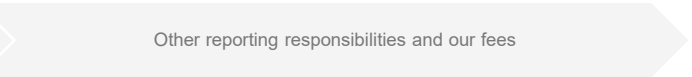
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Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We did not identify any risks from our planning work.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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
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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	17	No	No	No

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3. Commentary on VFM arrangements

Financial Sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability in 2021/22

The Council entered the 2021/22 financial year with the continued financial and operational challenges posed by the Covid-19 pandemic still impacting significantly. Some of the Government’s initiatives to respond to the Covid-19 pandemic were supported by additional funding, and the Council continued to receive significant additional funding in 2021/22. This funding helped the Council to support residents and businesses through the year. 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 2021, the Council set a balanced budget for the 2021/22 financial year with a total net budget for Council services of £637m. This required an increase in Council Tax of 4.99% (including 3% 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 £675m reflecting the significant Covid-19 funding received through the year. 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.

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 2021/22 as an overall underspend of £1.2m. This continues the Council’s strong track record of managing its budget through the year, and mitigating the risks and pressures emerging 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 2021/22. 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 has a very significant capital programme, and continues to play a lead role in developing the City. In 2021/22 the final capital budget was £503m. Actual spending against the budget was £293m, reflecting that, although significant progress was made against the various projects, Covid-19 impacted on the delivery of projects. As well as the routine capital projects the Council undertakes, there several large, strategically important projects. 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.

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

As part of its budget setting arrangements for 2021/22 the Council commenced its planning for its updated three year financial plan. The planning for 2021/22 recognised the importance of setting a balanced one year budget alongside demonstrating the long term financial resilience of the Council. The approach for 2021/22 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 2021 set out the detailed savings plans and proposals for each directorate, along with the proposed impact on the Council’s reserves until 2024/25.

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.

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Council’s arrangements and approach to 2022/23 financial planning

The Council’s arrangements for the 2022/23 budget setting process largely followed the arrangements in place for 2020/21.

The budget for 2022/23 was approved at the March 2022 Council meeting. The Council set a balanced budget with a total net budget for Council services of £691m with an increase in Council Tax of 2.99% (including 1% Adult Care precept). The 2022/23 budget included £11m of savings and efficiencies. The Council budget planned to use £154m of reserves, £117m related to the reserve for Business Rates, required to smooth the impact of the Covid-19 pandemic on the Collection Fund. The majority of the reserve use was related to the Business Rates reserve. The projected General Fund and earmarked reserves at the end of 2022/23 were £318m.

We have reviewed the supporting evidence relating to the preparation of the 2022/23 budget and these demonstrate 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. Commentary on VFM arrangements

Governance

How the Council ensures that it makes informed decisions and properly manages its risks



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 registers 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 2021/22, the Audit Plan was presented to the Committee in March 2021. 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 2021/22 and 2022/23 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 2021/22 a continued 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 Audit Committee meetings routinely throughout the year, 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 2021/22 the Head of Audit & Risk Management concluded 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. 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. Commentary on VFM arrangements

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



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. 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 Council used the output to both inform the budget planning process for 2021/22, 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 2022 the register included 48 significant partnerships, only one of which was reported as having limited assurance of controls

over the partnership, and 37 were rated as having the highest level of assurance. This is a consistent position with the previous year, and provides good information to the Council on the level of risk in its partnership working.

During 2021/22 the impact of Covid-19 continued to place 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 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.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power 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 the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

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 did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We have not yet completed this work and will submit this information to the NAO on completion.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 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	£43,750	£48,000
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	£2,500	-
Additional fees in respect of additional audit requirements for Manchester CC: Enhanced Audit Reporting	£5,625	£5,625
Additional fees in respect of value for money work arising from the change in the Code of Audit Practice	£12,500	£12,500
Additional fees in respect of auditing infrastructure assets	£15,000	-
Additional fees in respect of auditing the Council's Group	£20,000	£20,000
Additional fees in respect of specific accounting and quality issues	£42,000	£30,000
Total fees	£300,894	£275,644

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

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Mazars

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*where permitted under applicable country laws.