

Cllr Lanchbury  
Chair of the Audit Committee  
Manchester City Council  
Mount Street  
Manchester  
M30 2LA

Direct  
line  
Email      suresh.patel@mazars.co.uk

16 November 2023

Dear Cllr Lanchbury

**Conclusion of pending matters– Audit completion report**

Following on from the September 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 14 September 2023. The outstanding matters and the conclusions reached are detailed below:

| <b>Matter</b>                           | <b>Conclusion reached</b>   |
|---|---|
| Pension Liability                       | We have completed our work on the Council’s final actuarial valuation report. The work did not identify any additional matters to report to the Council. The adjustments the Council made to the financial statements were reported in our Audit Completion Report.   |
| Movement in Reserves Statement          | We have completed our work on the Council’s Movement in Reserves Statement. Our work identified a misstatement in the classification of items in the Unusable Reserves (Capital Adjustment Account) in Note 39d of the financial statements. The Council amended the financial statements. This adjustment did not impact on any other entries in the financial statements. |
| Cost of Services expenditure and income | We have completed our work on the Council’s expenditure and income. There are no matters to report to the Committee from our work.  |
| Cash flow statement                     | We have completed our work on the Council’s Cash flow statement. There are no matters to report to the Committee from our work.   |

| Matter   | Conclusion reached   |
|--|--|
| Financial instruments disclosures  | We have completed our work on the Council's Financial Instruments disclosures in Note 37 of the financial statements. Our work identified that the Council has misclassified two financial assets with a total value of £2.5m. The details are included in Appendix A. Our work did not identify errors in carrying value of those assets. The Council has not amended the financial statements on the grounds of immateriality.   |
| Group consolidation  | We have completed our work on the Council's Group consolidation. Our work identified errors in the consolidation work and the misstatements. The Council has made amendments to the financial statements for some of the errors, and has not amended other errors on the grounds of immateriality. The adjustments made and not made are included in Appendix A.   |
| Final review procedures  | We have completed our final review procedures. The work identified a misstatement in the Council's disclosure of Contingent Assets in Note 44. In our view the asset disclosed is not a contingent asset but is a long term debtor and should be included in the Council's balance sheet. The value of the asset is £2.5m and is not material. The Council has not amended the financial statements on the grounds of immateriality.   |
| Post Balance Sheet Events  | We have completed our work on the Council's post balance sheet events including obtaining relevant assurances from Council officers. Specifically these assurances included events impacting on Manchester Airport Holdings Limited, and RAAC in Council buildings. The Council have included additional disclosures reflecting the events that have occurred since 31 March 2022 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. Based on the final financial statements we reconsidered our materiality levels. We reduced our materiality level for the Council to £29.1m and for the Group to £33.57m. The reduction reflects the reduction in the Council's Gross Expenditure at the Surplus/Deficit on Provision of Services level arising from adjustments made following the audit. Our performance materiality and trivial reporting thresholds were reduced as a consequence of the reduction in headline materiality. There are no additional matters arising to report to the Committee. |

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Appendix A contains the summary of additional mis-statements identified. Appendix B contains our proposed audit report and opinion. Appendix C contains our requested Management Representation Letter from management. Appendix D contains our additional fees which have been agreed with the Deputy Chief Executive & City Treasurer, and are subject to approval by Public Sector Audit Appointments. If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours sincerely



**Suresh Patel**

Partner

16 November 2023

## Appendix A – Audit Misstatements

### Corrected misstatements

The Council has amended the financial statements for the following misstatements above our trivial threshold of £873k (Council) and £1,007k (Group).

|   | CIES                                    |          | Balance Sheet |          |
|---|---|----------|---------------|----------|
|   | Dr £'000                                | Cr £'000 | Dr £'000      | Cr £'000 |
| 1 | Dr Group Property, Plant & Equipment    | -        | 831           | -        |
|   | Dr Group Long Term Debtors              | -        | 750           | -        |
|   | Dr Group Short Term Debtors             | -        | 241           | -        |
|   | Cr Groups Short Term Creditors          | -        | -             | 750      |
|   | Cr Group Long Term Deferred Liabilities | -        | -             | 241      |
|   | Cr Group I&E Reserve                    | -        | -             | 831      |

Errors identified in the consolidation of Destination Manchester Limited. The cumulative impact on Group Total Assets was an increase of £1.8m with an increase of £0.8m on the Group I&E reserve.

|   |  |  |        |        |
|---|--|--|--------|--------|
| 2 | Dr Group Long Term Investment in Joint Venture |  | 33,183 |        |
|   | Cr Group I&E Reserve                           |  |        | 33,183 |

The group consolidation for the draft accounts removed the full equity value of the airport car park company, of which the Council's share is only 10% and is not consolidated by the Council. The Council should have applied their 35.5% share of Manchester Airport Holdings Ltd to the car park company equity value. This adjustment corrects the consolidation adjustment so that only 35.5% of the equity value is removed.

|   |   |  |        |        |
|---|---|--|--------|--------|
| 3 | Cr Group Net Cost of Services Expenditure |  | 12,380 |        |
|   | Cr Group Net Cost of Services Income      |  | 31     |        |
|   | Dr Group Tax Expense of Subsidiary        |  | 897    |        |
|   | Dr Group I&E Reserve                      |  |        | 11,514 |

Adjustments identified in the 2020/21 audit, completed after the 2021/22 draft accounts were produced impacted on the 2021/22 consolidation of group accounts. The impact of the adjustments is to reduce Group Net Expenditure at the Cost of Services level by £12.4m, increase Tax Expenses of the Subsidiary by £0.9m and increase Group I&E reserve by £11.5m.

|   |  |        |  |        |
|---|--|--------|--|--------|
| 4 | Dr Group Share of Other Comprehensive Income and Expenditure of Joint Ventures | 12,998 |  |        |
|   | Cr Group I&E Reserve   |        |  | 12,998 |

Adjustments identified in the 2020/21 audit, completed after the 2021/22 draft accounts were produced impacted on the 2021/22 consolidation of group accounts. The impact of the adjustments is to reduce the Group Share of OCI of the Joint Venture by £13m with a corresponding reduction in the Group I&E reserve.

### Corrected Disclosure Adjustments

- Note 39(d) Capital Adjustment Account – the Council adjusted the note to correctly disclose downward revaluation of investment properties in the line for 'Movement in fair value of investment property
- Note 40 Dedicated Schools Grant – the Council has included the prior year comparator disclosure.

- Group Cash Flow Statement and Group Notes 11 and 12 – the Group Cash Flow Statement and Group Notes 11 and 12 have been amended to remove the £1.5m loan repayment by Destination Manchester Limited to the Council. This is an intra group transaction.

### **Uncorrected misstatements**

The Council has not amended the financial statements for the following misstatements above our trivial threshold of £873k (Council) and £1,007k (Group) on the grounds that they are individually and cumulatively immaterial.

|   | CIES   |          | Balance Sheet |          |
|---|--|----------|---------------|----------|
|   | Dr £'000   | Cr £'000 | Dr £'000      | Cr £'000 |
| 1 | Dr Property, Plant & Equipment   | -        | 1,504         | -        |
|   | Cr Unusable Reserves   | -        | -             | 1,504    |
|   | The valuation of an asset was understated because the calculation was incorrectly reduced by a price indexation.   |          |               |          |
| 2 | Dr Long Term Debtors   |          | 2,595         |          |
|   | Cr Usable Reserves   |          |               | 2,595    |
|   | An asset disclosed as a contingent asset should have been recognised as a long-term debtor.  |          |               |          |
| 3 | Dr Group Long Term Investment in Joint Venture   |          | 2,378         |          |
|   | Cr Group I&E Reserve   |          |               | 2,378    |
|   | In calculating the Council's equity share of Manchester Airport Holdings Limited (MAHL) 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 the Group Balance Sheet and Group I&E Reserve are understated.   |          |               |          |
| 4 | Dr Group Long Term Investment in Joint Venture   |          | 835           |          |
|   | Cr Share of Operating Results of Joint Venture   |          |               | 13,766   |
|   | Dr Other Comprehensive Income of Joint Venture   | 12,931   |               |          |
|   | The Council adjusts the operating results of Manchester Airport Holdings Limited to apply depreciation on the consolidated revalued assets values. In 2020/21 additional depreciation had incorrectly only been applied to some of the Airport assets. This error also applies to 2021/22. The cumulative impact of the error was a reduction in depreciation of £13.7m, an increase in Other Comprehensive Income of £12.9m, resulting in a net increase in the valuation of the investment of £0.8m. |          |               |          |

### **Uncorrected Disclosure Adjustments**

Note 37 Financial Instruments – one financial asset (£1.3m) was misclassified as Fair Value through Other Comprehensive Income, and one financial asset (£1.2m) was misclassified as Fair Value through Profit & Loss. Both assets should have been classified as Amortised Cost.

Note 44 Contingent Assets – the Council has disclosed one contingent asset. Our work concluded that the asset was not a contingent asset but was a long term debtor that should have been recognised in the balance sheet. The value of the asset at 31 March 2022 was £2.5m.

**Appendix B – 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 subsidiary and joint venture ('the Group') for the year ended 31 March 2022, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ('the Code Update'), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31<sup>st</sup> March 2022 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 2021/22 as amended by the Code Update.

### 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.

### 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 Deputy Chief Executive & City Treasurer'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><b>Valuation of Council Property, Plant and Equipment</b><br/> <i>Note 19a to the financial statements discloses information on the Council's holding of property, plant and equipment (PP&amp;E) which includes £744.5m of Council Dwellings and £1,241.7m of Other Land &amp; Buildings held at current value at 31 March 2022.</i><br/>           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 &amp; equipment revalued in a five-year cycle. The valuation of property, plant &amp; equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuers in the year.</li> <li>• Critically assessing the Council's approach to ensure that assets not subject to revaluation in 2021/22 are materially fairly stated.</li> <li>• Critically assessing the Council's approach to ensure that assets revalued through 2021/22 are materially fairly stated at the year end.</li> </ul> |



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.

The Council's two consolidated entities, MAHL and DML, account for their land & buildings at cost as permitted by their financial reporting framework. In consolidating their share of the two entities the Council must align the companies' accounting policies with their own. Consequently for the group consolidation exercise the Council engages an external valuer to value the land & buildings consistent with the Council's accounting policies.

- 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 2022.
- Substantively testing for a sample of assets how valuation movements were presented and disclosed in the financial statements.

#### **Our observations**

We obtained sufficient appropriate evidence to conclude that the valuation of land & buildings included in the financial statements is reasonable.

#### **Valuation of Investment Properties**

*The Council's Balance Sheet discloses their Investment Properties to be valued at £493.7m at 31 March 2022*

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.

Our audit procedures included, but were not limited to:

- 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 by the Council's valuers for a sample of assets.
- Comparing the valuations to our valuation expert's estimate of the valuations for a sample of assets.

|  |   |
|--|---|
| <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>  | <ul style="list-style-type: none"> <li>• Sample testing the completeness and accuracy of underlying data used by the valuers as part of their valuations.</li> </ul> <p><b>Our observations</b></p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of investment properties included in the financial statements is reasonable.</p>  |
| <p><b>Valuation of the Council's and the Group's Defined Benefit Net Pension Liability</b></p> <p><i>The Council's and the Group's balance sheet discloses the Council and Group pension liability to be valued at £540.6m at 31 March 2022 and comprises assets of £3,841.6m and liabilities of £4,382.2m.</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 2022. 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 2021/22.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Critically assessing the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council.</li> <li>• 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, including membership data for the triennial valuation, for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate.</li> <li>• Obtaining a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and the membership data, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets and the actuary's calculation of the pension liability. 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.</li> <li>• 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.</li> <li>• 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 challenging the assumptions included in the 31 March 2022 triennial valuation. This challenge included comparing the assumptions to expected ranges provided by our expert, PWC, consulting actuary engaged by the National Audit Office.</li> </ul> |

- 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.

### 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               | £29.1m  | £33.57m  |
| Basis for determining materiality | Materiality has been determined as approximately 1.5% 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           | £18.915m  | £21.821m |
| Reporting threshold               | £0.873m   | £1.007m  |

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 94.0% of the Group's total assets, 99.4% of the Group's total liabilities, 91.0% of the Group's income and 86.7% 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 5.4% of the Group's total assets, 0% of the Group's total liabilities, 8.2% of the Group's income and 13.1% of the Group's expenditure.

- Specific audit procedures were carried out on the valuation of Destination Manchester Limited's Property, Plant & Equipment assets which represents 0.7% of the Group's total assets.
- Analytical procedures were performed on Destination Manchester Limited 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 Responsibilities for the Annual Statement of Accounts, 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 2021/22 as amended by the Code Update, 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 2021/22 as amended by the Code Update 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, and 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 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 September 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](http://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 opinion, 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 2022.

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 December 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 four years covering the audit of the financial years ending 31 March 2019 to 31 March 2022.

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.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

Suresh Patel, Key Audit Partner  
For and on behalf of Mazars LLP

30 Old Bailey  
London  
EC4M 7AU

[Insert date]



## **Appendix C – Requested Management Representation Letter**

### **To be provided to us on client headed note paper**

[Date]

Dear Suresh

### **Manchester City Council - audit for year ended 31 March 2022**

This representation letter is provided in connection with your audit of the financial statements of Manchester City Council ('the Council') and its Group for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) , as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022, and applicable law.

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

### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022 and applicable law.

### **My responsibility to provide and disclose relevant information**

I have provided you with:

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

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

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

### **Accounting records**

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

### **Accounting policies**

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

### **Accounting estimates, including those measured at fair value**

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

### **Contingencies**

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

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

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

There are no undisclosed contingent gains which should be disclosed.

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

### **Laws and regulations**

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

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

### **Fraud and error**

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

I have disclosed to you:

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

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

### **Related party transactions**

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

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

### **Future commitments**

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

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Other matters**

- I confirm the Council has assessed the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.
- I confirm the Council has assessed the potential impact of Russian Forces entering Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.
- I confirm the Council has assessed the potential impact on the Council of the on-going global banking challenges, in particular whether there is any impact on the Council's ability to continue as a going concern and on the post balance sheet events disclosures. In this regard I confirm that our exposure with Silicon Valley Bank, Credit Suisse, Signature Bank or any other bank in a distress situation is not material.
- I confirm the Council has assessed the potential impact of Reinforced Autoclaved Aerated Concrete on the Council, and in particular whether there are indications of a need for an impairment of the Council's property, plant and equipment or investment property balances. I confirm there are no such indications of impairment in those assets.

**Going concern**

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

**Unadjusted misstatements**

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

Yours faithfully

Carol Culley  
Deputy Chief Executive and City Treasurer

**Appendix****Schedule of unadjusted misstatements**

|                                       |   | <b>CIES</b>   |               | <b>Balance Sheet</b> |               |
|---------------------------------------|---|---------------|---------------|----------------------|---------------|
|                                       |   | Dr<br>(£'000) | Cr<br>(£'000) | Dr<br>(£'000)        | Cr<br>(£'000) |
| 1                                     | Unusable Reserves                                 |               |               | 5,722                |               |
|                                       | Infrastructure Assets                             |               |               |                      | 5,,722        |
| 2                                     | Property, Plant & Equipment                       |               |               | 10,658               |               |
|                                       | Unusable Reserves                                 |               |               |                      | 10,658        |
| 3                                     | Unusable Reserves                                 |               |               | 4,208                |               |
|                                       | Property, Plant & Equipment                       |               |               |                      | 4,208         |
| 4                                     | Short Term Debtors – Payments in advance          |               |               | 1,905                |               |
|                                       | General Fund Reserves                             |               |               | 774                  |               |
|                                       | Net Cost of Services – Gross expenditure          |               | 2,679         |                      |               |
| 5                                     | Property, Plant & Equipment                       |               |               | 1,504                |               |
|                                       | Unusable Reserves                                 |               |               |                      | 1,504         |
| 6                                     | Long Term Debtors                                 |               |               | 2,595                |               |
|                                       | Usable Reserves                                   |               |               |                      | 2,595         |
| 7                                     | Group LT Investment in Joint Venture              |               |               | 2,378                |               |
|                                       | Group I&E Reserve                                 |               |               |                      | 2,378         |
| 8                                     | Group LT Investment in Joint Venture              |               |               | 835                  |               |
|                                       | Group Other Comprehensive Income                  | 12,931        |               |                      |               |
|                                       | Group Share of Operating Results of Joint Venture |               | 13,766        |                      |               |
| <b>Total unadjusted misstatements</b> |   | <b>12,931</b> | <b>16,445</b> | <b>30,579</b>        | <b>27,065</b> |

**Appendix D – Additional fees**

| <b>Area of work</b>   | <b>2020/21 actual fees</b> | <b>2021/22 proposed fees</b> |
|---|----------------------------|------------------------------|
| 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                       |
| <b>Total fees</b>   | <b>300,894</b>             | <b>275,644</b>               |