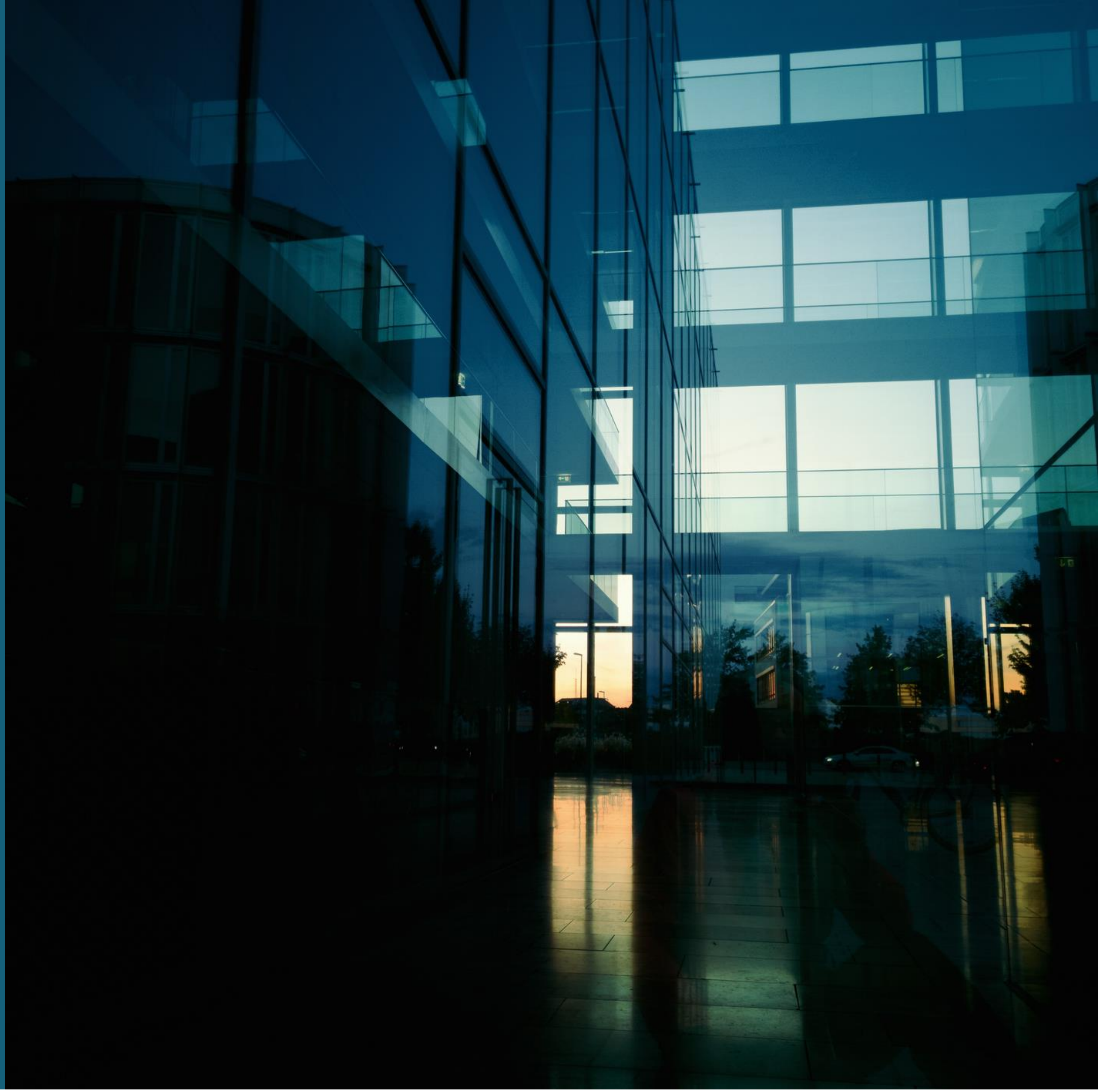
Audit Completion Report

Manchester City Council
Year ended 31 March 2023

April 2024



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16 April 2024

Dear Committee Members

Audit Completion Report – Year ended 31 March 2023

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 13 February 2024. We have reviewed the significant audit risks, key audit matters and other areas of management judgement included in our Audit Strategy Memorandum and during the course of the audit we subsequently identified one additional significant risk:

- Risk of fraud in revenue recognition (at the Group level which is applicable only to the component of Manchester Airport Holdings Ltd).

At the date of this report our audit is in progress and we will provide a verbal update to the Committee at the 23 April meeting.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on +44 (0) 7977 261 873.

Yours faithfully

Suresh Patel

Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

- Valuation of the defined benefit liability (or asset);
- Valuation of property, plant and equipment;
- Valuation of investment properties; and
- Consolidation of group financial statements.

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

- Management override of control; and
- Revenue recognition.

Misstatement and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £16m. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

1. Executive summary

Status and audit opinion

Due to the timing of the audit work, the Council has faced challenges in responding to audit queries promptly. As a result, at the date of this report our audit remains in progress. We include in Section 2 the significant matters that remaining outstanding. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements.

Value for Money
We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report. Our work in this area is not yet complete.

Whole of Government Accounts (WGA)
We anticipate completing our work on the Council's WGA submission, in line with the group instructions issued by the NAO, following completion of the audit opinion work. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.

02

Section 02:

Status of the audit

2. Status of the audit

Our work remains in progress. At the date of this report there remains audit testing in progress, audit testing that is subject to internal review and we need to complete our review processes which include the Engagement Lead and Engagement Quality Reviewer (EQR) completing their respective reviews of audit work.

Audit testing complete but subject to completion of internal review:

- Property, Plant & Equipment
- Investment Properties
- Provisions
- Debtors and Creditors
- Operating Expenditure sample testing

Audit testing in progress:

- Cash in hand
- Operating expenditure cut-off testing
- PFI
- IT general controls testing
- Group Accounts consolidation

In addition to the above, as expected, at the date of this report we have yet to complete our concluding audit procedures, the Engagement Lead and EQR input and our final review procedures.

We summarise the status of the audit overleaf.

2. Status of the audit

Our work is in progress. Whilst there are currently no matters of which we are aware that would require modification of our audit opinion, we outline below the risk of material changes in respect of the outstanding matters.

Audit area	Risk of material adjustment or significant change	Description of the outstanding matters
Operating Expenditure	Low	We are working through expenditure cut-off testing.
Cash in hand	Low	We are awaiting a cash in hand download to conclude our work in this area.
PFI	Medium	We have raised several queries in relation to the accounting treatment of the PFI schemes. We are working with officers to resolve the queries.
IT General Controls	Low	We are finalising our work on the IT General Controls around the SAP system. The Council provided the requested information on 7 March 2024.
Group Accounts consolidation	High	We have challenged the method used by the Council to prepare its consolidated group accounts. We also identified an entity that should have been consolidated. The Council are working on their response.
Value for money	Low	We are awaiting the Council's value for money self-assessment.
Final review procedures	Medium	Final review of audit work by the Manager, Partner and Engagement Quality Reviewer
Financial statements, AGS and Letter of Representation	Low	We will complete our final review of the financial statements and annual governance statement upon receipt of the signed version of the accounts and letter of representation

High - Likely to result in material adjustment or significant change to disclosures within the financial statements.

Medium - Potential to result in material adjustment or significant change to disclosures within the financial statements.

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

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2024. We have made changes to our audit approach since we presented our Audit Strategy Memorandum which are outlined below:

We have identified one further significant risk of fraud in revenue recognition at the Group level which is applicable only to the component of Manchester Airport Holdings Ltd. Please see Section 4 for further details of the significant risk.

The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. We have rebutted the risk of fraud in revenue recognition within the Council's single entity financial statements on the basis of the following factors:

- There is little incentive to manipulate revenue recognition. Local Authorities do not have annual financial targets, performance incentives etc. linked to achievement of a certain financial position;
- Opportunities to manipulate revenue recognition are limited; and
- The culture and ethical frameworks of local authorities, including Manchester City Council, means that all forms of fraud are difficult to rationalise i.e. culture and ethics mitigate against fraud being acceptable.

We have also rebutted the risk of fraud in revenue recognition within the components Destination Manchester Ltd and Manchester Heat Network Group on the basis of the revenue within these components being clearly immaterial.

Materiality

We set provisional materiality at the planning stage of the audit at £44.4m (Group) and £36.5m (Council single entity) using a benchmark of 1.75% of gross operating expenditure. We have made no changes to the materiality level set at the planning stage.

3. Audit approach

Management's and our experts

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

Item of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Hyman Robertson	PwC – NAO's consulting actuary
Non-Council Dwelling Property, Plant and Equipment valuation	Avison Young	Mazars in house valuation team
Council Dwellings valuation	Capita	N/A – local audit team
Surplus Assets valuation	Council valuation experts & Jacobs	Mazars in house valuation team
Investment Properties valuation	Colliers	Mazars in house valuation team
Heritage Assets valuation	Council curators	N/A – local audit team
Valuation of MAHL, DML and the Manchester Heat Network land & buildings for Group consolidation purposes	Avison Young	Mazars in house valuation team
Valuation of Financial Instruments	Link Asset Services	We reviewed Link's methodology for providing the fair value disclosures

3. Audit approach

Significant risks

Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
Management override of controls	●		●		Substantive testing	-	-	No matters to bring to the Committee’s attention
Revenue recognition	●	●	●		Controls and substantive testing (carried out by the component auditor)	-	-	No matters to bring to the Committee’s attention
Valuation of the defined benefit liability (or asset)		●	●	●	Substantive testing	-	One unadjusted & one adjusted misstatement. See section 6.	Other than the adjusted and unadjusted misstatements noted in section 6, we have no matters to bring to the Committee’s attention
Valuation of property assets (PPE & Investment Properties)		●	●	●	Substantive testing	-	-	No matters to bring to the Committee’s attention

3. Audit approach

Key areas of management judgement and enhanced risks

Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
Consolidation of group financial statements		●	●	●	Substantive testing	Level 2 control observation. See section 5.	The component Manchester Heat Network was missed from the consolidation.	We have not yet completed our work in this area. We include in both Section 4 and 5 matters for the Committee in relation to this risk.

3. Audit approach

Group audit approach

Group component	Approach adopted	Key points or other matters to report
Manchester City Council	Full audit carried out by group engagement team	The Mazars audit team undertook the full audit of the Council. Our work is still ongoing.
Manchester Airport Holdings Ltd	Full audit carried out by component auditor EY UK LLP	The Mazars audit team issued Group Audit Instructions to EY, auditors of the MAHL accounts. The Mazars team reviewed the work carried out by EY to confirm it provided the assurance requested in the Group Audit Instructions. The Mazars audit team, using the Mazars valuation team, audited the Council's valuation of the operational MAHL land & buildings applied to the group consolidation. Our work is still ongoing.
Destination Manchester Ltd	Specified audit procedures on the revaluation of the component's land & buildings Group level analytical procedures	The Mazars audit team, using the Mazars valuation team, audited the Council's valuation of the operational DML land & buildings applied to the group consolidation. The Mazars audit team applied review procedures to the remaining consolidated entries. Our work is still ongoing.
Manchester Heat Network Group	Specified audit procedures on the revaluation of the component's land & buildings Group level analytical procedures	The Mazars audit team, using the Mazars valuation team, audited the Council's valuation of the Civic Quarter Heat Network asset applied to the group consolidation. The Mazars audit team applied review procedures to the remaining consolidated entries. Our work is still ongoing.

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

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

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

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

04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include our findings on key audit matters, including:

- why the matter was considered;
- why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
- how the matter was addressed in the audit including a summary of the auditor’s response to those risks;
- where relevant, key observations arising with respect to those risks; and
- a clear reference to the relevant disclosures in the financial statements.
- if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 26 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

4. Significant findings

Key Audit Matters (continued)

Net defined benefit liability (or asset) valuation (Council & Group)	**Description of the key audit matter** The net pension liability (asset) represents a material element of the Council balance sheet. The Council is a scheduled employer body within the 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 liability, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's' employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the Council's net pension liability in 2022/23.
	How our audit addressed the key audit matter and our observations Our audit procedures included: • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary. • 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 includes 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. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets. • Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.

4. Significant findings

Key Audit Matters (continued)

Net defined benefit liability (or asset) valuation (Council & Group)	How our audit addressed the key audit matter and our observations (continued)
	• 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 financial statements. • Reviewing the Council's asset ceiling adjustment (given the increase in market yields) to ensure that it follows the Code and relevant accounting standards (IFRIC 14). **Audit Conclusion** We have completed our work. Other than the adjusted and unadjusted misstatements noted in section 6, we have no matters to bring to the Committee's attention.

4. Significant findings

Key Audit Matters (continued)

Valuation of property, plant and equipment (Council & Group)	Description of the key audit matter
	The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in government 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.
	How our audit addressed the key audit matter and our observations
	Our audit procedures included: • Obtaining an understanding of the skills, experience and qualifications of the valuers, and considering the appropriateness of the Council's instructions to the valuers. • Obtaining an understanding of the basis of valuation applied by the valuers in the year

4. Significant findings

Key Audit Matters (continued)

Valuation of property, plant and equipment (Council & Group)	**How our audit addressed the key audit matter and our observations (continued)** • Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuers. • Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2022/23 are materially fairly stated. • Obtaining an understanding of the Council's approach to ensure that assets revalued through 2022/23 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. • Engaging with our in-house valuations expert to assess the reasonableness of the valuations. • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023. **Audit Conclusion** We have completed our work. We tested a sample of 50 assets, engaged our own experts to review 5 of these, and were satisfied that the valuations undertaken by the Council were reasonable and supported by appropriate evidence There were no matters identified from the work to report to the Audit Committee.

4. Significant findings

Key Audit Matters (continued)

Valuation of Investment Properties	Description of the risk The CIPFA Code requires that all Investment Property assets are held at fair value. The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materiality on the reported value. There are risks relating to the valuation process. The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of investment property due to the significant judgements and number of variables involved
	How we addressed this risk Our audit procedures included: • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer. • Obtaining an understanding of the basis of valuation applied by the valuer in the year. • Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer. • Engaging with our in-house valuations expert to assess the reasonableness of the valuations. • Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.
	Audit conclusion We have completed our work. We tested a sample of 26 assets, engaged our own experts to review 8 of these, and were satisfied that the valuations undertaken by the Council were reasonable and supported by appropriate evidence There were no matters identified from the work to report to the Audit Committee.

4. Significant findings

Key Audit Matters (continued)

Consolidation of group financial statements	**Description of the risk** The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group. The consolidation process is a complex process and involves material amounts of transactions and balances. Previous audits have identified audit adjustments to be made to the group consolidation process.
	How we addressed this risk Our approach to auditing the Group Financial Statements has been detailed in section 3. Our procedures on the consolidation process included: • Reviewing the Council's Group consolidation process. • Reviewing the Council's judgements relating to the entities that are not consolidated into the Group Financial Statements. • Reviewing the method of consolidation of the consolidated group entities into the Group Financial Statements. • Agreeing the consolidated financial information to supporting evidence from the component financial statements.
	Audit conclusion We challenged the Council's judgement not to consolidate the Manchester Heat Network in the group accounts. The Council have now prepared a revised set of draft group accounts which include the Manchester Heat Network as a component. We have also challenged the Council on its method for preparing the consolidated group accounts. The Council are working on their response. As highlighted in Section 2 our work in this area is still ongoing. We will report our conclusion and findings to the Committee in due course.

4. Significant findings

Significant risks

Management override of controls (Council and Group)	**Description of the risk** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion We have completed our work. As part of our audit testing of journals we identified 80 journals for detailed testing, through our testing of these journals we found no evidence of management override of controls. There were no matters identified from the work to report to the Audit Committee.

4. Significant findings

Significant risks

Risk of fraud in revenue recognition (Group – Component Manchester Airport Holdings Ltd)	**Description of the risk** The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. The risk at the component level of Manchester Airport Holdings Ltd relates to: • The risk that management overstate revenues to meet targets using topside journals; • The risk of error in the measurement of aviation income and rebates due to the complexity of terms with airlines; and • The risk that pre-booked parking income is recognised in an incorrect period due to management override of data inputs in the deferral calculation.
	How we addressed this risk We addressed this risk through reviewing the work completed by EY UK LLP (the component auditor of MAHL). EY identified fraud in revenue recognition as a significant risk within their audit of MAHL and carried out their planned audit procedures to address this risk accordingly. EY did not identify any issues in relation to revenue recognition in the MAHL audit.
	Audit conclusion We have completed our work. There were no matters identified from the work to report to the Audit Committee.

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council's on 14 August 2024 and were of a good quality.

Significant matters discussed with management

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

Timing of the audit and impact on the finance team

As a result of the timing of completing the 2021/22 audit, preparation of the draft 2022/23 accounts and the availability of Mazars audit resources, we agreed with the Council to commence the audit for 2022/23 in December 2023, with the majority of the audit work scheduled to be complete during January and March 2024. The Council's finance team have had challenges in responding to audit queries promptly which has delayed audit progress. We acknowledge the difficulties of servicing the audit when the finance team has other priorities. We have agreed to discuss the lessons learned from the 2022/23 audit prior to agreeing a timetable for the 2023/24 audit.

We have also discussed with Officers the need to complete the audit of the 2022/23 accounts in a timely manner to enable the Council to publish audited accounts by the end of September 2024, which is the date that DLHUC recently consulted on as the backstop date for the year ended 31 March 2023.

Pensions asset ceiling

As part of our audit review of the net pensions asset valuation we challenged the Council on the calculation performed by management's expert (the Pension Fund Actuary) in calculating the pensions asset ceiling. As a result of these discussions the actutary provided a revised calculation, this has been reflected within the revised financial statements and reported in Section 6 of this report.

Valuation of land and building and surplus assets not revalued in year

There is a balance of £263.9m of land and buildings and surplus assets which haven't been formally revalued or indexed during the 2022/23 financial year. The CIPFA Code requires that councils ensure that the carrying amount of assets does not differ materially from that which would be determined using current value at the end of the financial year. As part of the audit we asked the Council to demonstrate that the £263.9m of assets were materially correct as at 31 March 2023.

Following an exercise by the Council we are satisfied that the assets which have not been formally revalued during the 2022/23 financial year are materially correct. However, we have raised an internal control recommendation relating to this area in Section 5.

Group accounts consolidation

We challenged the Council's judgement not to consolidate the Manchester Heat Network in the group accounts. The Council have now prepared a revised set of draft group accounts which include the Manchester Heat Network as a component.

The Manchester Heat Network is a wholly owned subsidiary of the Council made up of three limited companies. During the 2022/23 financial year the Manchester Heat Network acquired the Civic Quarter Heat Network asset from the Council which has a fair value of £21m. During 2022/23 the Council loaned the subsidiary £14m and made an equity investment of £7m.

The Council's initial view was that the subsidiary did not meet their materiality threshold for consolidation. However, following further discussion including discussions on the detail of all entities within the Council's group boundary which are not consolidated into the group accounts, the Council made the decision to consolidate the Manchester Heat Network.

We have also challenged management on its method of preparing consolidating group accounts.

Accounting for PFI schemes

We have queried the accounting treatment and related disclosures of the PFI lifecycle costs for the Councils PFI schemes. We are still in discussion with officers to resolve these queries.

4. Significant findings

Significant matters discussed with management (continued)

Reinforced Autoclaved Aerated Concrete (RAAC)

A national issue has emerged regarding the use of Reinforced Autoclaved Aerated Concrete (RAAC) in public sector buildings. Some buildings with this material have been found to be structurally unsound and, in some instances, have closed due to safety concerns. This could lead to potential impacts on the financial statements of the Council in the form of property impairments and impacts on the use lives. We have discussed with management the arrangements that the Council has in place to assess and manage the risk of RAAC in its buildings.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law;
- make an application for judicial review; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2022/23 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. Whilst we have received correspondence from members of the public, we have received no objections.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Audit Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	6
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our audit testing of property, plant and equipment disposals we identified an error whereby an asset had been accounted for as being disposed of but the Council still owned the asset as at 31 March 2023. This indicates that there is a lack of internal control over the review of the disposals listing.

Potential effects

There is a risk that the Council's financial statements are materially misstated due to property, plant and equipment assets incorrectly being accounted for as disposed of when the disposal has not occurred.

Recommendation

The Council should ensure that property, plant and equipment disposals are only processed when there is documentation to evidence that the disposal has occurred.

Management response

Previously the finance team have relied on information from development colleagues in relation to disposals as at 31 March. The information is cross checked against the capital receipt (where applicable) and the land registry records. Such documentation is not always available by the time the draft accounts are published.

Going forwards legal colleagues will be asked to confirm there has been an exchange of contracts in relation to the disposal.

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our audit testing of capital commitments we identified values were included for capital projects which had finished prior to 31 March 2023 and therefore there was no outstanding capital spend committed. This indicates that there is a lack of internal control over the review of the listing of capital commitments.

Potential effects

There is a risk that the disclosure of capital commitments in the Council's financial statements is materially misstated.

Recommendation

The Council should ensure a thorough review of the capital commitments as part of the preparation of the draft financial statements.

Management response

Documentation has been reviewed to ensure contracts have been entered in to and only these contracts will be included in this disclosure. Contracts are cross checked to the commitments in the finance system (SAP), including a reconciliation to contract value and understanding of any variations.

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

There is a balance of £263.9m of land and buildings and surplus assets which have not been formally revalued or indexed during the 2022/23 financial year. The CIPFA Code requires that the Council ensure that the carrying amount of assets does not differ materially from that which would be determined using current value at the end of the financial year. As part of the audit, we asked the Council to demonstrate that the £263.9m of assets were materially correct as at 31 March 2023, as it became apparent that this had not been considered as part of the year end close down procedures and the Council's work to demonstrate the asset values were materially correct was only completed during the audit period following our challenge questions.

Potential effects

There is a risk that the value of the Council's property, plant and equipment within the financial statements is materially misstated.

Recommendation

The Council should complete an assessment of the land and buildings and surplus assets which are neither formally valued or indexed during the year to ensure that the values are correct as at the balance sheet date.

Management response

Agreed. As part of 2022/23 closedown we will ensure that this exercise is carried out on the value of assets which are not formally revalued or indexed to provide assurance that they are materially correct as at 31 March 2024,

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our review of the Council's group accounts we challenged the Council on why the Manchester Heat Network was not consolidated. Although the Council carried out a comprehensive review of the entities within the group boundary, there was not an overall assessment of the value of the entities not consolidated.

Potential effects

There is a risk that the Council's group accounts could include omissions of group entities which could lead to the accounts being materially misstated.

Recommendation

The Council should continue to carry out a comprehensive review of the entities within the group boundary each year as part of the closedown procedures. Alongside considering each entity individually for consolidation in line with materiality a stand back assessment should be completed to ensure that the group accounts would not be materially misstated when considering all entities not consolidated.

Management response

Manchester Energy Network is now included in the updated Group Accounts as a subsidiary. It is agreed that the annual review of entities in which MCC have an interest will assess materiality at both individual company level as well as collectively when considering inclusion in the group accounts

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Through our audit work we identified transactions with the Manchester Heat Network and The Factory International which met the CIPFA Code definition of a related party transaction which had not been included within the related party transactions disclosure note within the financial statements. This indicates a lack of internal control surrounding the completeness of related party transaction disclosures within the financial statements.

Potential effects

There is a risk that the Council omits related party transactions from the disclosures within the financial statements.

Recommendation

The Council should ensure a thorough review of transactions with related parties as part of the preparation of the draft financial statements, to ensure the disclosure is complete.

Management response

Related Parties are identified through various methods and every year the completeness and robustness of the process is improved. Subsidiaries, Associates and Joint Ventures are identified through the Company database which is maintained by Commercial Governance. There is also a review of officer and member directorships and declaration of interests. From 23/24 the review will also consider significant partnerships, which would pick up entities such as The Factory International.

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

We have identified that there are a number of properties which the Council have leased out to tenants where the tenant has taken occupancy of the property before the lease agreement has been finalised and signed.

Potential effects

There is a risk the Council is not receiving the rent for the property if the lease agreement it not in place in a timely manner. The Council is also open to other risks where the tenant does not have a current lease agreement in place.

Recommendation

The Council should ensure that lease agreements are signed and agreed by both parties prior to the tenant taking control of the property to ensure all properties leased out are subject to a contract.

Management response

Best practice is to ensure that leases are completed before tenants take occupation. There are a small number of occasions when a tenant has taken occupation of a premises while leases are finalised. This approach is adopted when there is a clear benefit to early occupation of a building with the risks of this approach weighed against the benefits. Risks are mitigated by measures including:

- limiting this approach to trusted partners;
- ensuring Heads of Terms, including payment terms, are agreed in advance;
- putting in place a temporary licence for occupation.

The appropriate mitigation is agreed in consultation with Legal Services.

5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Our work on the Council's NNDR processes and controls identified that during 2021/22 the Council had not reconciled the ratable value and properties per the Valuation Office report to the Council's system.

Potential effects

Errors in either the VOA report or the Council's system data may go unresolved. We carried out additional audit procedures to reconcile the year end VOA report to the Council's system.

Recommendation

The Council should carry out regular reconciliations between the external VOA report and its internal system data.

2022/23 update

Management consider this recommendation to have been fully implemented. Reconciliation jobs have been run on 27 July 2022, 14 April 2023 and 7 December 2023 so the recommendation has been implemented. The team have recently received the latest full report from the VOA and will be carrying out the reconciliation this month.

We now consider this recommendation to have been fully implemented by management.

Follow up on previous internal control points

Description of deficiency

Our work on the Council's journal transfers considered whether the user processing the journal was an appropriate officer. Following discussion with the Council finance team, they concluded that two such users were not appropriate and their access rights should be amended to remove journal processing.

Potential effects

Inappropriate access to process journals increases the risk of journals being processed by mistake. We reviewed all journals processed by the two users and tested the significant journals which impacted on the reported financial position. No audit issues were identified from this testing.

Recommendation

The Council should regularly confirm that all users with journal processing rights remain appropriate.

2022/23 update

Management consider this recommendation to have been fully implemented.

The recommendation that we regularly confirm users with journal access rights remain appropriate is achieved. The systems team under carried out a specific exercise and strengthened the process with ICT colleagues on SAP access and joiners, movers, leavers.

We now consider this recommendation to have been fully implemented by management.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £1,095k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

As part of the 2021/22 audit we reported an unadjusted misstatement of £1,905k which related to 2022/23 expenditure which had incorrectly been accounted for in the 2021/22 financial year. Therefore, the gross expenditure 2022/23 Comprehensive Income and Expenditure Statement is understated by £1,905k, the general fund balance as at 31/03/2023 is not impacted by this misstatement.

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of unadjusted misstatement
1	Debit: Net Pensions Asset			9,086		The auditor of the Greater Manchester Pension Fund identified an unadjusted error in the valuation of pension fund assets of £70m. £9m is the estimate of the Council's share of this error.
	Credit: Pensions Reserve				(9,086)	
2	Debit: Assets Held for Sale			6,937		As part of our sample testing of disposals we identified that the Council had accounted for an asset as being disposed of, but the Council still owned the asset as at 31 March 2023. Because we identified this error in our sample testing, in line with our approach, we extrapolated the known error of £1,088k over the remaining untested disposals.
	Credit: Gains/Losses on disposal of non-current assets		(2,834)			
	Credit: Unusable Reserves: Capital Adjustment Account				(4,103)	
	Total unadjusted misstatements	-	(2,834)	16,023	(13,189)	

There are corresponding errors in the Cash Flow Statement (Cash Flows from investing activities) and the Movement in Reserves Statement (adjustments between accounting and funding basis).

6. Summary of misstatements

Adjusted misstatements		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of adjusted misstatement
1	Debit: Net Pensions Asset			272,947		The Council obtained a revised pensions asset ceiling calculation from the pension fund actuary Hymans Robertson during the course of the audit, this adjustment reflects the revised asset ceiling position.
	Credit: Pensions Reserves		(272,947)			
2	Debit: Long-Term Debtors			2,620		This adjustment was identified by the client. The adjustment relates to the Council's Equity Share Assistance scheme. The adjusting journals correct the valuation of the debtor as at 31 March 2023.
	Credit: Unusable Reserves: Deferred Capital Receipts Reserve				(2,620)	
	Total unadjusted misstatements	-	(272,947)	275,567	(2,620)	

There are corresponding errors in the Cash Flow Statement (Cash Flows from investing activities) and the Movement in Reserves Statement (adjustments between accounting and funding basis). These have also been adjusted for, along with any disclosure notes impacted.
The adjustments disclosed above have also been reflected in the group accounts.

6. Summary of misstatements

Disclosure amendments

We identified the following adjustments during our audit that have been corrected by management:

- Note 9 Expenditure and Income Analysis - £45,281k of grant income was miscoded to fees and charges, this has been corrected in Note 9.
- Note 27 Operating Leases – The future minimum lease payments receivable under non-cancellable leases disclosure was amended as follows:

	£'000
• Not later than one year	64
• Later than one year and not later than five years	256
• Later than five years	3,678

- Note 30 Contracted Capital Commitments – The total value of capital commitments has been increased by £8,508k, from £175,570k to £184,078k.
- Note 34 Analysis of Long-term Borrowing – A correction has been made to the range of interest rates payable.
- Note 40 Dedicated Schools Grant – An additional table has been added to disclose the prior year comparative values.
- Note 45 Related Party Transactions – Additional disclosures have been added to disclose the transactions between the Council and the related parties of the Manchester Heat Network and The Factory International.
- Note 53 Events after the Balance Sheet Date – Additional narrative has been added to disclose that following the year end three schools with total value of Land and Building assets of £38.4m have converted to academies.

At the time of preparing the 2022/23 draft financial statements the audit of the 2021/22 financial statements was not yet complete. All disclosure amendments which were agreed as part of the 2021/22 audit have now been reflected in the 2022/23 financial statements.

We identified the following adjustments during our audit that have not been corrected by management:

- As part of our sample testing of capital commitments we identified for one sample item that there was no contractual commitment as the capital project had been completed. Because we identified this error in our sample testing, in line with our approach, we extrapolated the known error of £921k over the remaining untested gross expenditure. We also identified a further error with a value of £546k where the capital commitment for another project was understated. The total known and projected misstatement of the capital commitments disclosure is £6,662k overstated
- As part of our sample testing of fees and charges we identified that one sample item was incorrectly classified as fees and charges within Note 9 when the correct classification was grant income. Because we identified this error in our sample testing, in line with our approach, we extrapolated the known error of £51k over the remaining untested fees and charges income. The total known and projected misclassification is £15,1890k. Note this does not impact on the comprehensive income and expenditure statement, the error is purely a classification issue within Note 9 Expenditure and Income Analysis.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor’s Annual Report. We intend to issue the Auditor's Annual Report by the end of September 2024.

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2023. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

As noted above, our commentary on the Council’s arrangements will be provided in the Auditor’s Annual Report.

Appendices

A: Independence

B: Other communications

Appendix A: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix B: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	Other than the disclosure amendments detailed in Section 5, we did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	We have not identified any evidence to cause us to disagree with the City Treasurer that Manchester City Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix B: Other communications (continued)

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

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

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