

**Manchester City Council
Report for Information**

Report to: Audit Committee – 23 July 2024

Subject: Final Annual Accounts 2022/23

Report of: City Treasurer

Summary

To provide the Committee with updated 2022/23 accounts and explain the key audit adjustments since the update provided to this committee 23 April 2024.

Recommendations

The Committee is recommended to:

- (1) To consider and comment on the amendments made to the annual accounts since the last update reported to the committee in April 2024.
 - (2) Approve the revised annual accounts including the accounting policies contained within them. Delegate authority to the City Treasurer and Chair of Audit Committee to approve any final nonmaterial changes.
 - (3) Agree not to amend the annual accounts in relation to PFI Lifecycle and adjust 2023/4 accounts to take account of cumulative lifecycle costs.
-

Wards Affected: All

Environmental Impact Assessment -the impact of the issues addressed in this report on achieving the zero-carbon target for the city	None
Equality, Diversity, and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments	None

Manchester Strategy outcomes	Summary of how this report aligns to the Our Manchester Strategy/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A live able and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

None of the changes to the accounts impact on the financial position of the council or its taxpayer funds.

Financial Consequences – Capital

None

Contact Officers:

Name: Tom Wilkinson
Position: City Treasurer
Telephone: 0161 234 1017
E-mail: tom.wilkinson@manchester.gov.uk

Name: Samantha McArdle
Position: Head of Corporate Finance (Deputy City Treasurer)
Telephone: 0161 234 3472
E-mail: samantha.mcardle@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to four years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

Working papers – Consolidation of 2022/23 accounts working papers

[Audit Committee report 14 March 2023 – Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty](#)
[Report to Audit Committee 25 July 2023 – Draft Annual Accounts 2022/23](#)
[Report to Audit Committee 28 November 2023 – Annual Accounts Update](#)
[Report to Audit Committee 23 April 2024 – Updated Annual Accounts 2022/23](#)
[Audit Committee 23 April 2024 - Report of External Auditors \(Mazars\)](#)

1. Introduction

- 1.1. The 2022/23 draft accounts were presented to this committee on 25 July 2023 and published for public inspection on 14 August 2023. At the April 2024 meeting of this committee, an update was provided outlining the audit adjustments agreed and reflected as part of the audit process. At that point, the audit was substantially complete subject to a number of outstanding matters, as outlined in the audit completion report, also presented to the committee.
- 1.2. The most significant issue related to the consolidation of the Manchester Airport Group accounts into the Councils group accounts, which is an extremely technical part of the accounts preparation process and unique to a small number of Councils. This report summarises the final position following this review. Further details can also be found in the External Auditor's report elsewhere on this agenda.
- 1.3. Subject to the satisfactory conclusion of the outstanding work, an unqualified opinion on the single entity and group accounts is expected to be issued.
- 1.4. This report is supported by Appendix 1 – Final Annual Accounts 2022/23. This is expected to be the final position for 2022/23. The external auditors are yet to conclude their review of the changes to the group approach and their final review of the full accounts document. It is recommended that any final, non-material changes are delegated to the City Treasurer for approval in consultation with the Chair of the Audit Committee. The auditor's annual report will then be brought to the September 2023 meeting of this committee.

2. Background and context

- 2.1. As the committee are aware, there are significant issues across the local authority financial reporting and local audit system. As of March 2024, a total of 646 audit opinions were delayed for the financial years 2015/16 to 2022/23.
- 2.2. As reported to the April meeting the former government proposed legislative changes which would require local authorities to finalise all their outstanding audited financial statements by 30 September 2024, bringing audits up to date for financial years 2015/16 through 2022/23. This is known as the 'backstop date' and was a first step in clearing the backlog and restoring the timeliness of audit opinions.
- 2.3. The general election and change of government mean this is now unlikely to be in place in time for the September deadline. The new government has not yet communicated whether it wishes to proceed with the proposals. The National Audit Office (NAO) issued a supplementary guidance note on 19 June 2024¹. This advised that "auditors should continue to follow the current code of audit

¹ NAO Supplementary guidance note issued 19 June 2024 [Auditor Guidance GC \(nao.org.uk\)](https://www.nao.org.uk/publications/202406/auditor-guidance-gc/)

practice. Where auditors are planning to complete audits, they should continue to make every effort to do so and as soon as possible".

- 2.4. The finalisation of the 2022/23 audit work has run concurrently with the 2023/24 accounts consolidation process which has brought additional pressure to the local system. The Council and the external auditors have maintained a productive working relationship, despite these national and local challenges. Both teams remain focused on returning to a timely accounts preparation and audit process as soon as possible.

3. Update on matters outstanding at April 2023

- 3.1. It remains the case that there have been no changes to the draft accounts that affect the usable reserves of the Council. The Council's underlying resource position remains as previously reported.

- 3.2. The conclusion in relation to matters which were outstanding at April 2024 is summarised as follows.

- Operating Expenditure testing – Work is now complete; three errors were identified during testing which identified expenditure of £133k had been accounted for in the wrong financial year.
- Cash in hand – Work is complete on this area and no further issues were identified.
- Treatment of the PFI Schemes – Work is complete on this further detail is provided at 3.3 of this report.
- ICT general controls - Work is complete on this, no control deficiencies were identified, some management improvement areas have been discussed in relation to the Council's IT policies.
- Group Accounts – External Audit are completing their evaluation of the Councils revised approach as outlined at 1.4 of this report.
- Value for Money - the Council's self-assessment is complete, and the external auditors are formulating their opinion.

- 3.3. PFI is a technically complex area of the council's accounts and review of the accounting treatment during audit identified that lifecycle payments for 1 of the 6 schemes the council has, had not been appropriately included in the model. Due to the complexity and timing this has not been adjusted in the 2022/23 accounts but will form a restatement to the 2023/24 accounts to correctly classify the cumulative costs.

- 3.4. The Group Accounts reflected the consolidation of Destination Manchester Limited (DML) and Manchester Heat Network Limited which are wholly owned subsidiary companies, and Manchester Airport Holdings Limited (MAHL) which is a Joint Venture, of which the Council owns 35.5%.

3.5. As part of the 2022/23 audit, it was agreed between the Council and the external auditors that the group accounts consolidation had become overly complicated. The rationale behind some of the consolidation adjustments was no longer clear, due to staff turnover at both the Council and the external auditors. The Council agreed to commission external support from CIPFA and have now reviewed and streamlined the approach. The audit of the updated group accounts is still underway.

4. Next Steps

4.1. Once the group audit is complete the final review procedures of the whole accounts will be carried out by the audit partner and Engagement Quality Reviewer.

4.2. Should any significant matters arise from the review these will be reported back to the next Audit committee. If there are no changes, or they are not material it is proposed that the City Treasurer will sign and return the letter of representation after which the external auditors will issue an unqualified audit opinion.

5. Conclusion

5.1. The 2022/23 audit is substantially complete subject to final review procedures. Subject to the satisfactory conclusion of the outstanding work, an unqualified opinion on the single entity and group accounts is expected to be issued. The final Annual Accounts for 2022/23 are appended to this report.

5.2. As well as being a statutory requirement, audited financial statements are critical to effective financial management in Local Authorities and a key part of how councils are held to account. Both the Council, and our external auditors are working closely together to return to the reporting deadlines following a few difficult years.