

Audit Strategy Memorandum

Manchester City Council (and Group)

Year ending 31 March 2020





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This document is to be regarded as confidential to Manchester City Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

Members of the Audit Committee
Manchester Town Hall
Manchester
M60 2LA
21 January 2020

Dear Members of the Audit Committee

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Manchester City Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 8 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

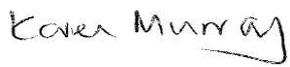
- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Manchester City Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0161 238 9248.

Yours faithfully

A handwritten signature in black ink that reads "Karen Murray". The signature is written in a cursive style with a prominent underline at the end.

Karen Murray

Partner and Engagement Lead

Mazars LLP

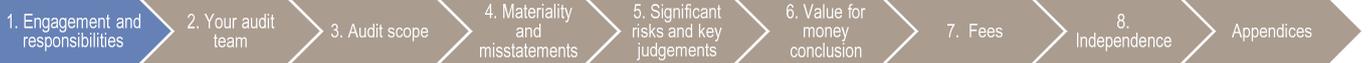
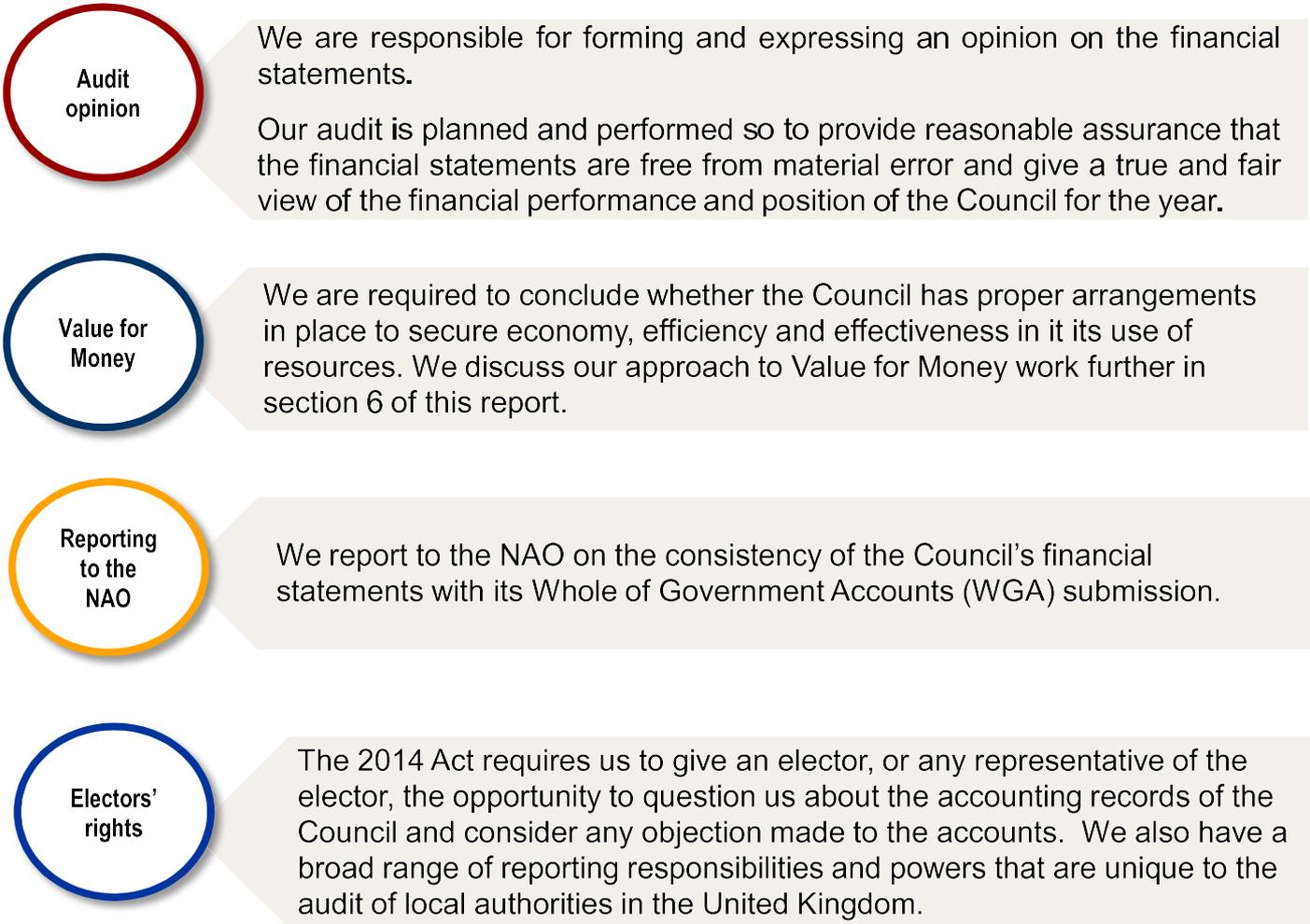
1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Manchester City Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



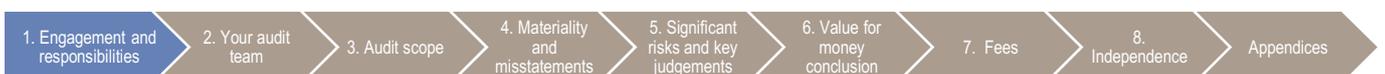
1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Our audit does not relieve management, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



Karen Murray
Partner and Engagement Lead

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Stephen Nixon
Senior Manager

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Simon Livesey
Assistant Manager

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Tel: 0161 238 9240

In addition an engagement quality control reviewer has been appointed for this engagement.



3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

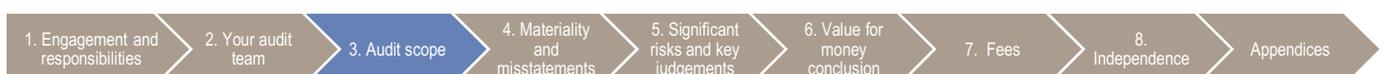
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

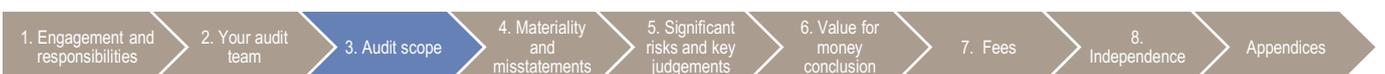
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. Direct confirmations will be obtained from the Council's bankers and for a sample of investments and borrowings.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 4.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE



3. AUDIT SCOPE, APPROACH AND TIMELINE

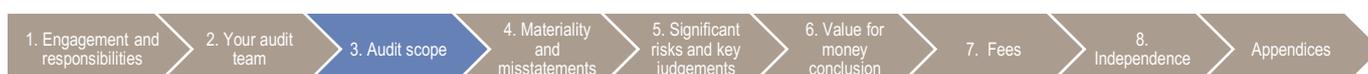
Internal audit

We take note of the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet regularly with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures. We have held initial discussions with the internal audit team in October 2019.

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. We discuss our use of experts further in respect of independence in section 8.

Items of account	Management’s expert	Our expert
Defined benefit pension liability valuation and disclosures.	Hymans Robertson – Actuary for the Greater Manchester Pension Fund.	PwC – Consulting actuary appointed by the National Audit Office.
Property valuations: land & buildings owned by the Council and investment properties.	Jacobs Inc. – Valuer for Council owned land, buildings and investment properties and land at Manchester Airport (also Council houses for 19/20).	The local audit team will challenge the key valuation assumptions.
Revaluation of land and buildings owned by third parties for group consolidation purposes on IFRS basis.	Avison Young (Manchester, Stansted and East Midlands Airports, Manchester Convention Complex).	The local audit team will challenge the key valuation assumptions.
Financial instrument disclosures.	Link Asset Services.	We will review Link’s methodology to gain assurance that the fair value disclosures of the Council’s financial assets and liabilities are materially correct.



3. AUDIT SCOPE, APPROACH AND TIMELINE

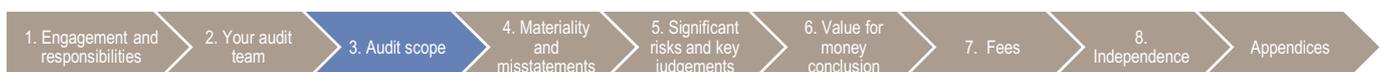
Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no service organisations used by the Council which impact upon our planned audit approach.

Direct Confirmations

We plan to seek external counterparty confirmations to provide assurance on the following balance sheet areas where appropriate:

- Cash and bank (Barclays and a sample of school banks)
- Investments (Confirmation of material items and a sample of residual year-end balances)
- Borrowings (PWLB and a sample of LOBOs and other long and short term borrowings)



3. AUDIT SCOPE, APPROACH AND TIMELINE

Group audit approach

The Council prepares Group accounts and consolidates the following bodies:

- Manchester Airports Holdings Limited (MAHL) – a joint venture in which the Council owns 35.5%
- Destination Manchester Limited (DML) – a 100% owned subsidiary of the Council.

The approach to the Group audit is set out below:

Entity	Level of response	Risks identified	Planned audit approach
Manchester Airports Holdings Ltd (MAHL)	Comprehensive	Alignment of group accounting policies	Early engagement with the Council's finance team. Early engagement with MAHL auditors (KPMG) to understand their risk identification process. Review the outcome of KPMG's audit and the Council's finance team's consolidation. Review Avison Young valuation of Manchester Airport.
Destination Manchester Ltd (DML)	Analytical	Alignment of group accounting policies	Early engagement with the Council's finance team. Review of the finance team's consolidation process by reference to DML accounts. Review Avison Young valuation of the Convention Centre.

We apply a separate materiality for the audit of the Group accounts as set out in section 4.

The Council also holds investments and interests in other bodies. Management carry out an annual assessment to see if these bodies have become sufficiently material to warrant consolidation into the Group accounts. Northwards Housing Ltd is the next largest body beneath MAHL and DML but was not consolidated in 2018/19 because inclusion would not materially alter the accounts. We will revisit management's assessment of the Group for 2019/20 and ensure the exclusion criteria complies with financial reporting standards.

We have not identified any significant risks for Group accounts purposes in relation to the components. The significant risks and areas of audit focus for the Council as a single-entity are set out in section 5. Based on our initial planning discussions we do not consider these significant risks to be risks for the component subsidiary companies.



4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)	
	Council	Group
Overall materiality	£31,489	£36,829
Performance materiality	£22,042	£25,780
Trivial threshold for errors to be reported to the Audit Committee	£945	£1,105

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

4. MATERIALITY AND MISSTATEMENTS

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the provision of services. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross expenditure at the provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We also consider qualitative factors when setting the level of materiality including related party transactions, transactions within the group boundary and the source of borrowing.

We expect to set a materiality threshold at 1.75% of gross expenditure at the provision of services.

Based on gross expenditure at the provision of services, we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £31.5m (£30.3m in the prior year), and for the Group it will be in the region of £36.8m (£35.7m in the prior year). For planning purposes this is based upon 2018/19 gross expenditure. This will be revisited upon receipt of the draft 2019/20 accounts and adjusted if there is a significant variation from the 2018/19 gross expenditure.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.



4. MATERIALITY AND MISSTATEMENTS

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
Senior Employees' Remuneration	£5,000 (reflecting the published salary bandings)

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

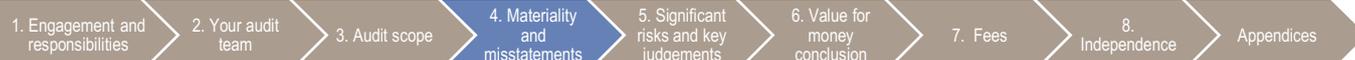
Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £945k, and £1,105k for the Group, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

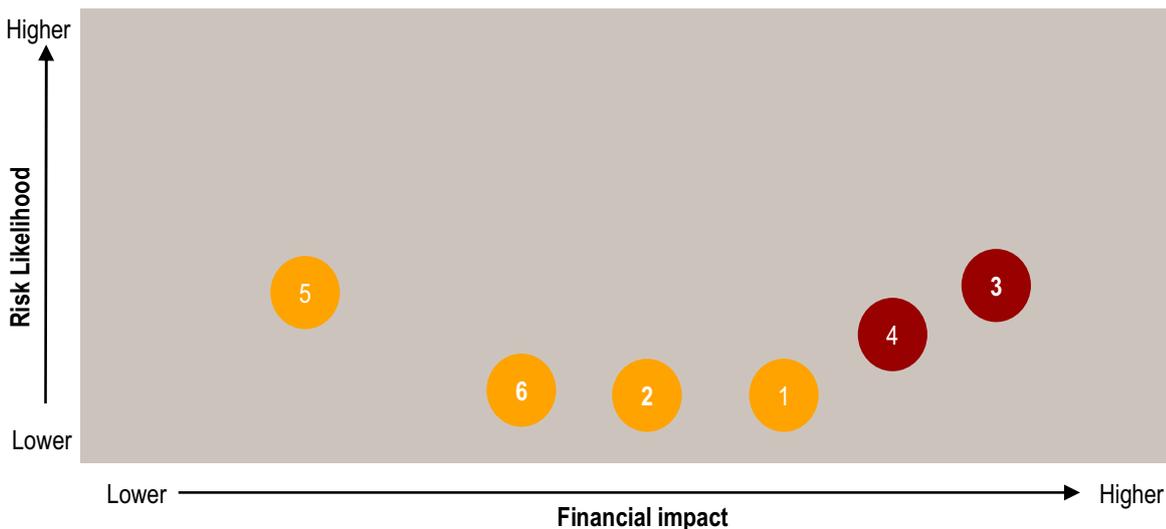
Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, are 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.

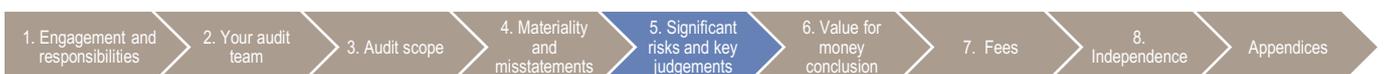
It is important that you understand and have opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. The summary risk assessment, illustrated below, highlights those risks which we deem to be significant, key audit matters and other enhanced risks. Our audit response to each of these risks is outlined on the table on the following page.

An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

The risk matrix below details the risks which are explained on the following pages.



● Key audit matter ● Risk not considered to be a key audit matter



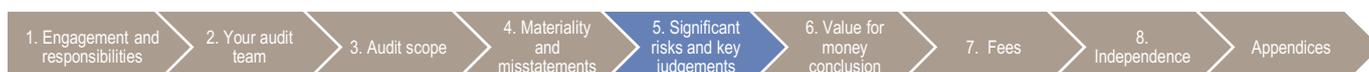
5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Specific identified audit risks and planned testing strategy

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within a Council 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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	●	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Significant risks (continued)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p>Revenue recognition</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on circumstances it is rebuttable. Based on our initial planning discussions we have concluded that we can rebut the presumption for the majority of the Council's revenue income and expenditure. The areas where we will carry out further detailed planning work and expect to be able to rebut the risk that relates to income including income categorised as fees & charges and that derived from the Council's subsidiary companies and trading operations etc.</p>	●	●	●	○	<p>We plan to establish, through our obtaining of a detailed understanding of income sources, that we can rebut the significant risk of revenue recognition for all areas of income.</p> <p>Notwithstanding this, our audit approach will however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2019/20 accounts.</p>

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Significant risks (continued)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p>Valuation of Property, Plant & Equipment (land and buildings including investment properties)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a five year rolling revaluation model which sees all land and buildings revalued in a five year cycle. Property revaluations do not affect the Council's usable reserves.</p> <p>The valuation of Property, Plant & Equipment involves the use of management experts (the valuers), and incorporates material assumptions and estimates.</p> <p>As a result of the rolling programme of revaluations there is a risk that individual assets not revalued for up to four years are not valued at their materially correct fair value. In addition as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.</p>	○	●	●	●	<p>In relation to the valuation of land and buildings we will:</p> <ul style="list-style-type: none"> Assess the skill, competence and experience of Jacobs as the Council's external valuers; Consider whether the overall revaluation methodology used is in line with industry practice, social housing statutory guidance, the CIPFA Code of Practice and the Council's accounting policies; Critically assess the appropriateness of the underlying data and the assumptions used in the values' calculations, based on our expectations by reference to sector and local knowledge; Critically assess the appropriateness of the social housing factor applied to Council Dwellings; Ensure the in-year valuation movements are consistent with market indices; Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct; Test a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Significant risks (continued)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
4	<p>Valuation of Defined Benefit Pension Liability</p> <p>The net pension liability is a material entry on the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund (GMPF), which had its last triennial valuation 31 March 2019</p> <p>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.</p> <p>There are financial assumptions and demographic assumptions used in the calculation, 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.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability. Pension revaluations do not impact the Council's usable reserves</p>	○	●	●	●	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the GMPF's Actuary, Hymans Robertson; Liaise with the auditors of GMPF to gain assurance that their controls in place are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by GMPF for the purposes of the IAS19 valuation is complete and accurate; Assess the portion of GMPF total assets and liabilities that are attributable to the Council. Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to GMPF; Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by GMPF Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

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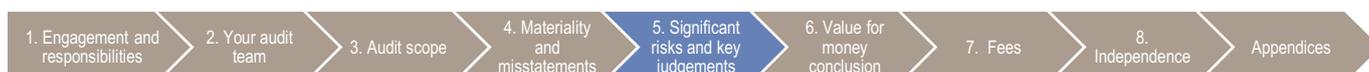
Appendices

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
5	<p>Group Financial Statements consolidation process</p> <p>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.</p>	○	●	●	○	<p>Our approach to auditing the Group Financial Statements has been detailed in section 3.</p> <p>We will complement this work by our review of the Council's Group consolidation process. In particular we will review the Council's judgements relating to the entities that are consolidated into the Group Financial Statements, and we will review and test the method of consolidation of those group entities into the Group Financial Statements.</p>



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Other key areas of management judgement and enhanced risks (continued)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
6	<p>Valuation and ownership of Manchester Airport Land & Buildings for Group consolidation</p> <p>MAHL's accounts are prepared in accordance with UK GAAP and the land & buildings are valued at 'deemed cost'. This is not on the same basis as the Council's valuations of land & buildings.</p> <p>Consequently, to align the accounting policies for the group consolidation exercise, the Council engages Avison Young as their expert to value the Manchester Airport land & buildings are valued on an IFRS basis (current value or depreciated replacement cost). Most of the airport land is owned by the City Council and the other nine GM Metropolitan Councils which creates a risk of double counting upon consolidation.</p>	○	●	●	○	<p>There is a need for a valuation of the airport land & buildings. We will review the valuation by Avison Young to ensure the land owned by the Council is correctly accounted for.</p> <p>This was an issue which resulted in a material adjustment to the 2018/19 Group Accounts.</p>

1. Engagement and responsibilities

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6. VALUE FOR MONEY

Our approach to Value for Money

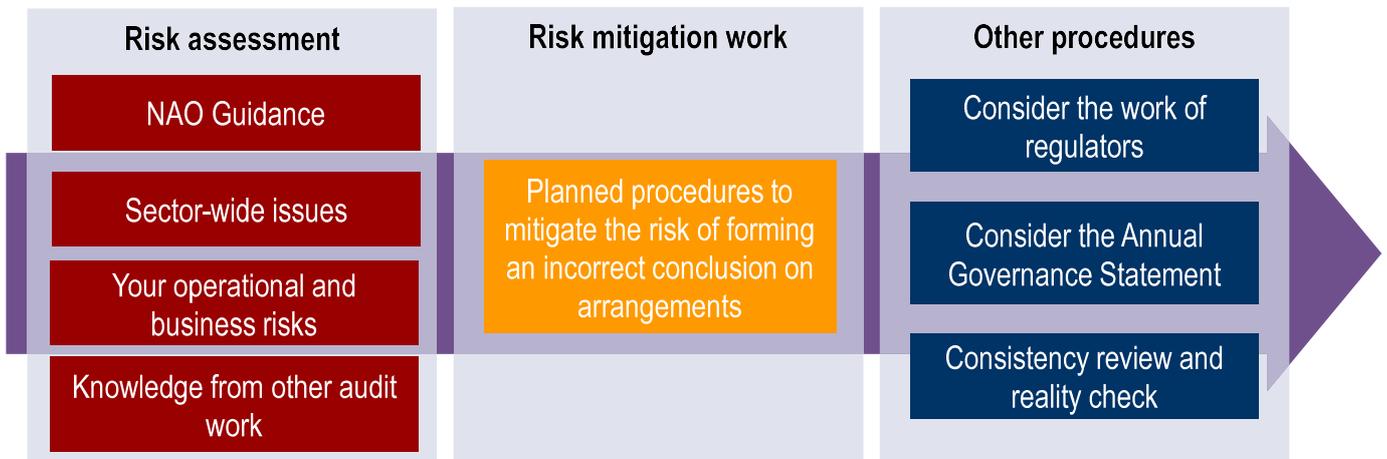
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below:



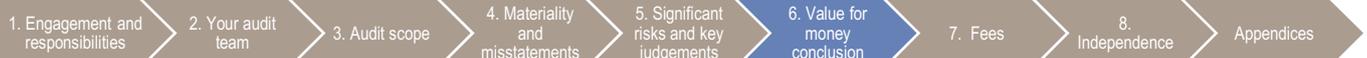
6. VALUE FOR MONEY

Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
<p>Financial sustainability</p> <p>2019/20 is the final year of the Councils three year strategy (2017-20), a period which has seen considerable budget cuts. The 2019/20 budget is balanced following an increase in Council Tax of 3.49% but requires the achievement of £15m savings.</p> <p>The continuing challenges the Council faces are not new and are not unique to Manchester City Council. The challenges do, however, present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability.</p>	<p>We will review the arrangements the Council has in place for ensuring financial resilience, specifically progress in achieving a balanced outturn in 2019/20. We also plan to review the 2020/21 medium term financial plan to ensure it properly reflects factors such as future funding sources, levels of other income, salary and general inflation, and demand pressures.</p>



7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

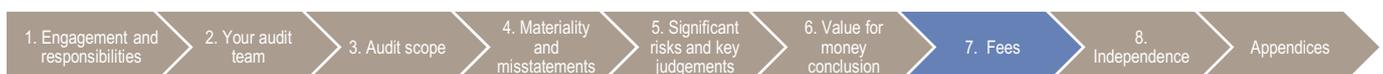
At this stage of the audit we are not planning any divergence from the scale fees set by PSAA, as communicated in our fee letter of 23 April 2019.

Service	2018/19 fee	2019/20 fee
Code audit work	£161,519*	£159,519

* An additional fee for £2,000 was agreed for further work required regarding the WGA consolidation.

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work. If requested to carry out any additional work, and before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.



8. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

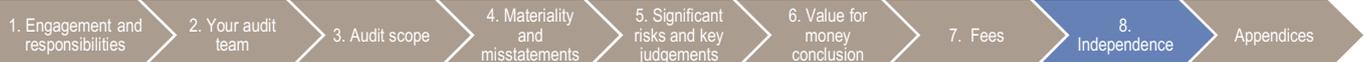
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services, Karen Murray will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance	Audit Strategy Memorandum Engagement letter
The planned scope and timing of the audit including any limitations, specifically including with respect to key audit matters	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report Discussion at Audit Committee Audit planning and clearance meetings
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for money conclusion

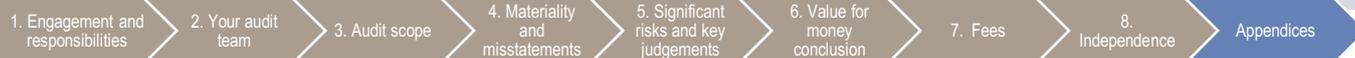
7. Fees

8. Independence

Appendices

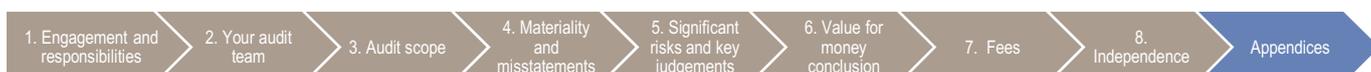
APPENDIX A – KEY COMMUNICATION POINTS

Required communication	Where addressed
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Board of Directors or the Audit Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report Audit Committee meetings
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual [or consolidated] financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Identification of each key audit partner involved in the audit	Audit Strategy Memorandum



APPENDIX A – KEY COMMUNICATION POINTS

Required communication	Where addressed
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

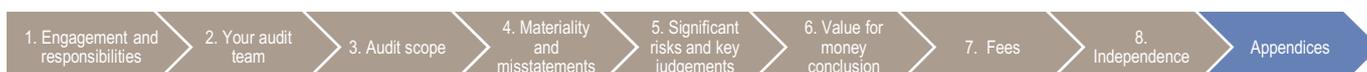


APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and associated lease liability to be recognised on the lessee’s Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p> <p>Although this change is effective from 1 April 2020, it is important to note that the Council must disclose the likely future impact in the 2019/20 accounts.</p>



APPENDIX C – EXTENDED AUDITOR’S REPORT

Basis of requirement for an extended auditor’s report

We are required to issue an extended auditor’s report on the Council’s 2019/20 financial statements under ISA (UK) 700 ‘Forming an Opinion and Reporting on Financial Statements’. This is required as the Council meets the definition of a Public Interest Entity as a result of it having debt that is listed on an EU regulated market.

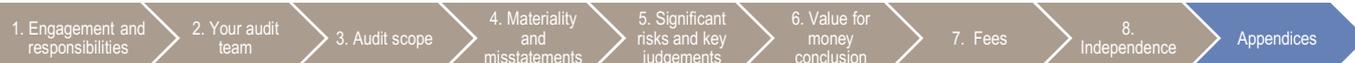
Layout of the extended auditor’s report

The extended auditor’s report for 2019/20 is expected to follow the format and structure outlined below, assuming that no emphasis of matter or qualification is required.

Paragraph heading	Summary of key content
Opinion	What we have audited and our opinion thereon.
Basis for opinion	Confirmation: <ul style="list-style-type: none"> • that the audit is undertaken under the ISAs (UK) • of our independence including with the FRC’s Ethical Standard • regarding sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council’s: <ul style="list-style-type: none"> • use of the going concern basis of accounting • disclosure of any material uncertainties
Key audit matters	Definition of key audit matters. Clarification that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"> • a description of the most significant assessed risk(s) of material misstatement • a summary of our response to those risks • key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements, where relevant.

APPENDIX C – EXTENDED AUDITOR’S REPORT

Paragraph heading	Summary of key content
Our application of materiality	<p>Explanation of how we applied the concept of materiality in planning and performing the group and parent company audit.</p> <p>The overall materiality threshold for the group and single entity financial statements as a whole.</p>
An overview of the scope of our audit	<p>Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.</p>
Other information	<p>Responsibilities of the Deputy Chief Executive and City Treasurer and of the auditor for other information included in the Narrative Report.</p>
Responsibilities of the Deputy Chief Executive and City Treasurer for the financial statements	<p>Cross reference to the Deputy Chief Executive and City Treasurer’s Statement of Responsibilities.</p>
Auditor’s responsibilities for the audit of the financial statements	<p>Explanation of the ‘reasonable assurance’ objective of the audit</p> <p>Cross-reference to our responsibilities for the audit on the FRC’s web-site</p>
Matters on which we are required to report by exception	<p>Report in the public interest under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Recommendation under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.</p>



APPENDIX C – EXTENDED AUDITOR’S REPORT

Paragraph heading	Summary of key content
Value for Money arrangements conclusion	Our conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.
Basis for conclusion	Overview of the scope of our value for money work.
Responsibilities of the Council for arrangements for securing economy, efficiency and effectiveness in its use of resources	Sets out the Council’s responsibilities.
Auditor’s responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources	Sets out the auditor’s responsibilities, derived from the Local Audit and Accountability Act 2014.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council and its group. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Sets out who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.

