

**MANCHESTER CITY COUNCIL
REPORT FOR RESOLUTION**

Report To: Audit Committee - 30 September 2010
Subject: Annual Accounts 2009/2010 and Letter of Representation
Report Of: City Treasurer

Purpose Of Report

To inform Members of adjustments to the annual accounts for 2009/2010 and to seek their approval and acknowledgement of the letter of representation.

Recommendations

The Committee is asked to agree the amendments made to the annual accounts for 2009/2010 and to approve and acknowledge the letter of representation attached to this report which will be signed by the City Treasurer.

Financial Consequences for the Revenue Budget

This report relates to expenditure incurred in 2009/2010. There is no effect on general reserves as a result of these amendments.

Financial Consequences for the Capital Budget

This report relates to capital expenditure incurred in 2009/2010. There is no effect on capital expenditure or funding as a result of these amendments.

Contact Officers

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Background Documents:

Annual Accounts 2009/2010
Report to Audit Committee on 24 June 2010

Wards affected:

All

Implications for:

Antipoverty **Equal Opportunities** **Environment** **Employment**
No No No No

ANNUAL ACCOUNTS.

Introduction

1. Members will recall that the Annual Accounts were approved by Audit Committee on 24 June 2010.
2. International Standard on Auditing (ISA) 260 requires that any non-trifling amendments be reported back to the Committee that approved the accounts before the audit can be completed. Further details of these requirements can be found in the External Auditor's report on this agenda.

It is pleasing to note there are significantly fewer adjustments to the 2009/2010 accounts than there have been in previous years. The amendments that have been made to the accounting statements are mainly due to differing accounting treatments being agreed rather than errors being corrected.

Balance Sheet

3. The following amendments have been made to the Council's balance sheet.
 - Following a review of the equipment relating to aids and adaptations it has been agreed that it is more appropriate that this is shown within vehicles, plant, furniture and equipment on the balance sheet rather than stock. This has resulted in an increase in tangible fixed assets and a reduction in current assets of £1,989,000.
 - After discussions with the External Auditors it has been agreed that a contribution of £980,000 which had previously been made to the community care reserve should instead be made to a provision. As a result of this amendment other revenue reserves have reduced and provisions increased. As contributions to provisions are shown within net cost of services this amendment results in an increased deficit in the Income and Expenditure Account. However due to the corresponding reduction in contributions to reserves in the Statement of Movement on the General Fund Balance there is no effect on the level of general reserves.

Group Accounts

4. The following amendment has been made to the group accounts
 - During the audit it was identified that items on the IFRS to UKGAAP conversion supplied by Manchester Airport Group plc were in fact late UKGAAP entries that should not have been removed during the group account consolidation. As a result of these amendments the Group income and Expenditure Account deficit has increased by £3,135,000. Assets and liabilities on the balance sheet have increased by £2,300,000. The 2008/2009 group accounts have also been restated which has resulted in an increase in both assets and liabilities of £8,200,000 in 2008/2009.

Disclosures

5. In addition to the amendments to the accounting statements additional information has been provided in the statement of accounting policies. Amended disclosures have also been made in some of the notes to the accounts. These include the following:
 - Exceptional items – details of impairments to fixed assets have been included – note 1.
 - Long term contracts – details of obligations for Private Finance Initiative (PFI) Schemes have been amended – note 3.
 - Tangible fixed assets – the analysis of the brought forward balance on investment properties and surplus assets has been amended to agree to the prior year accounts – note 11.
 - Capital commitments relating to various schemes have been amended – note 19.
 - A Contingent asset note relating to PFI schemes has been added – note 38.
 - The Department of Work and Pensions and Sure Start grants have been amended in the Analysis of Revenue Grants note – note 45.
 - A post balance sheet event note has been added relating to the change from the retail price index to the consumer price index as the basis for future pension increases – note 46. This relates to an announcement that was made by the Chancellor of the Exchequer in the Emergency Budget on 22 June 2010. The actuary has estimated that this change will reduce the value of the employer's FRS17 liabilities by 5.6% and the FRS17 balance sheet deficit by 15.8%. In monetary terms the liabilities and deficit will reduce by approximately £164.4m.

Next Steps

6. Within the report by the External Auditor a number of issues are raised. As regards these recommendations work will be undertaken during the current financial year to ensure these recommendations are acted on.
7. At the time of writing this report the audit of the 2009/2010 accounts was substantially completed. After the amendments made and subject to the satisfactory conclusion of the outstanding work, an unqualified opinion is expected to be issued by 30 September. If any further amendments are identified prior to the Committee's meeting they will be reported at the meeting.
8. Following the completion of the 2009/2010 accounts the 2009/2010 figures will be restated to comply with International Financial Reporting Standards and form the comparative year's figures for the first fully IFRS compliant set of accounts in 2010/2011.

LETTER OF REPRESENTATION.

9. The Council is required to provide a letter of representation to its Auditors. These representations are required to be approved and acknowledged formally by a committee of the Council. A copy of this letter is attached to this report.

RECOMMENDATION.

10. The Committee is asked to agree the amendments to the annual accounts for 2009/2010 and to approve and acknowledge the letter of representation which will subsequently be signed by the City Treasurer.



MANCHESTER
CITY COUNCIL

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City Treasurer

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Date: 30 September 2010

Dear Sirs

Financial Statements for the Year Ended 31 March 2010

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements

- i We acknowledge our responsibilities for ensuring that financial statements are prepared which give a true and fair view of the financial position of the Council and the Group in accordance with the SoRP and for making accurate representations to you. All references to the Council includes reference to members of the Group where they are material in relation to the Group accounts.
- ii As far as we are aware:
 - a there is no relevant audit information of which you are unaware
 - b we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information
- iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iv All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly recorded in the accounting records and reflected in the financial statements.
- v All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

- vi We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the 2009 SoRP, we selected the estimation technique considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for FRS 17 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded)
- viii The financial statements are free of material misstatements, including omissions
- ix We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- xi We are not aware of any irregularities, including fraud, involving management or employees of the Council. We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the Council suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice
- xii We have disclosed to you all related parties and there were no transactions with officers, members or other related parties which should be disclosed in the financial statements except as disclosed in note 39
- xiii Except as stated in the accounts:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure
- xiv There are no claims, legal proceedings or other matters which may lead to a loss falling on the Council or which could result in the creation of an unrecorded asset, that should be disclosed in the financial statements
- xv The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the

event of non-compliance

- xvi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than as required by the restatement of accounts under International Financial Reporting Standards in accordance with the 2010 Code.
- xvii No significant events having an effect on the financial position of the Council have taken place since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto
- xviii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xix We have compiled our accounts in accordance with FRS 5 Application note G ('revenue recognition'). We have recognised income when we have obtained the right to consideration following the fulfilment of contractual obligations concerning the supply of goods and services
- xx Valuations of investments in companies included in the accounts are based on appropriate estimation techniques. Where the Council has not been able to determine valuations with sufficient reliability this has been disclosed in the financial statements
- xxi all known liabilities in respect of equal pay/ single status have been recognised in the accounts
- xxii The split of the Unitary Charge for the Council's PFI schemes have been determined using appropriate modelling based on our best estimate of the charges for capital, service and lifecycle costs from the Operator's model
- xxiii We consider the assumptions within the financial models regarding operator's returns on the Council's PFI schemes to be appropriate.

Approval

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 30 September 2010.

Signed on behalf of Manchester City Council.

Signature

NameRichard Paver.....

PositionCity Treasurer.....

Date30/9/10.....