Manchester City Council
Report For Resolution

Report To: **Audit Committee - 24 September 2009**

Subject: **Annual Accounts 2008/2009 and Letter of Representation**

Report Of: **City Treasurer**

Purpose of the Report

To inform Members of adjustments to the annual accounts for 2008/2009 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 2008/2009 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 2008/009. The net effect of the identified amendments to the annual accounts is to increase the HRA reserve by £160,000 (paragraph 3 of the report). There is no effect on general fund reserves.

Financial Consequences for the Capital Budget

This report relates to capital expenditure incurred in 2008/2009. The net effect of the identified amendments to the annual accounts is to increase capital funding resources by £1,797,000. (paragraph 4 of the report).

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Background Documents:

Annual Accounts 2008/2009
Report to Audit Committee on 25 June 2009

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 25 June 2009.

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 considerably fewer adjustments to the 2008/2009 accounts than there were to the previous year's accounts. A number of the adjustments are as a result of updated information. However some of the adjustments are as a result of errors. Further procedures will be put in place during the 2009/2010 accounts process to try and eliminate these errors.

Housing Revenue Account (HRA)

3. There are no amendments that affect the level of general fund reserves however there is one amendment, which affects the level of the HRA reserve. This adjustment relates to clarification received after the draft accounts were approved.

   - A debtor for £5m was introduced into the accounts as the Council had been informed that housing capital funding was to be brought forward from 2009/2010 to 2008/2009. Since the draft accounts were approved the Council has been informed that this will be advanced through borrowing allocations rather than received as cash. As a result of this revised information the major repairs reserve has been reduced by £5m, a debtor of £2.3m removed from the accounts and replaced by a receipt in advance of £2.7m. This amendment has the effect of increasing the HRA deficit by £5m which is then reversed out through the Statement of Movement on Balances with no impact on the HRA reserve.

   As the amount of £5m will be advanced through borrowing allocations the housing subsidy entitlement has been recalculated. As a result of this the HRA reserve has increased by £160,000 and the receipt in advance reduced.

Income and Expenditure Account

4. The following changes have been made to the income and expenditure account. These are then reversed out through the statement of movement on the general fund balance and hence have no impact on general reserves.

   - A late valuation has been received for Cedar Mount High School. The valuation has been reduced by £11.2m and the impairment charge in the income expenditure account increased by that amount. The impairment charge is reversed out through the statement of movement on the general fund balance.

- A lottery grant of £1.8m that was received to fund capital works was treated as an unapplied capital grant in the draft accounts. However the expenditure relating to this grant had already been incurred. As this expenditure related to an asset no longer on the balance sheet this grant has been written off to the income and expenditure account in the amended accounts. The effect of this additional income credited to the income and expenditure account is reversed out through the statement of movement on the general fund balance.

- The Council had previously received government grants of £78.5m to fund capital expenditure. The related assets have been reclassified as non-depreciating assets and as a result the grant had to be fully written off to the income and expenditure account. As the asset reclassifications occurred prior to 2007/2008 this has now been treated as a prior year adjustment and the income has been removed from the income and expenditure account. As this is reversed out through the statement on the general fund balance there is no effect on the general fund reserves. The balances on the government grants deferred and capital adjustment accounts have been amended at 1 April 2007. This different treatment has been agreed with Grant Thornton. There is no effect on the 2008/2009 closing balance sheet.

5 In addition to the adjustments above the following adjustment that does not affect the income and expenditure account deficit has been made.

- Education grant income of £8.5m was received in advance of use. This was correctly accounted for as a receipt in advance on the balance sheet but expenditure was increased rather than income reduced. This has been amended and has no impact on general fund reserves.

Balance Sheet

6 The following amendments have been made to the Council's balance sheet.

- Cheques totalling £373,000 that had been produced but not issued at 31 March had been accounted for as payments in advance. This has been amended and is now classed as cash.

- An asset with a valuation of £4.1m has been reclassified as land and buildings rather than an investment property.

- The draft accounts contained an item of £54m classed as previously unrecognised assets in the analysis of movements in the value of fixed assets. This relates to the amended valuation of assets and is now shown within revaluations. The balances on the government grants deferred account and the revaluation reserve have been amended as a result.

Group Accounts

7. The following amendments have been made to the group accounts

- A consolidation adjustment relating to a dividend received paid by an associate company within the group has been amended, As a result of this amendment the group income and expenditure account deficit has increased by £721,000.

- The group balance sheet has been amended to account for a deferred tax adjustment of £108.2m that had previously been shown in the statement of recognised gains and losses. This has no effect on the group income and expenditure account.

- A consolidation adjustment of £3.7m relating to the Manchester Airport Group Plc has been amended and is now shown as an adjustment to short term debtors rather than short term borrowing.

Disclosures

8. In addition to the amendments to the accounting statements additional information has been provided in the explanatory foreword and statement of accounting policies. Improved disclosures have also been made in some of the notes to the accounts. These include the following:

- Exceptional items – details of transactions relating to Large Scale Voluntary Transfers and impairments to fixed assets have been included
- Mental Health Pooled Budget
- Audit Fees
- Related Party Transactions relating to the PCT
- Capital commitments relating to Education schemes
- Assets Held as Lessor – three additional properties have been added

Next Steps

9. 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.

10. At the time of writing this report the audit of the 2008/2009 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.

11. Following the completion of the 2008/2009 accounts the 2008/2009 figures will be restated for the changes that have been introduced as part of the 2009

SORP. Following the completion of the restatement the 1 April 2009 opening balances will be restated to comply with International Financial Reporting Standards. This will form the starting point for the comparative year's figures for the first fully IFRS compliant set of accounts in 2010/2011.

LETTER OF REPRESENTATION.

12. 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.

13. The Committee is asked to agree the amendments to the annual accounts for 2008/2009 and to approve and acknowledge the letter of representation which will subsequently be signed by the City Treasurer.

MANCHESTER
CITY COUNCIL

City Treasurer

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To reply please contact:

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Date: 24 September 2009

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Dear Sirs

We are writing to confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers of the Council, the following representations given to you in respect of your audit of the above financial statements for the year ended 31 March 2009.

i we acknowledge our responsibilities for ensuring that financial statements are prepared which present fairly the financial position of the Council and the Group in accordance with the SoRP and for making accurate representations to you

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 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 reflected and recorded in the accounting records

iv all other records and related information, including minutes of all Council and Committee meetings, have been made available to you

v 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 2008 SoRP, we selected the estimation technique considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a “presents fairly” 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. In that regard, adequate provisions have been made:

- a to reduce debtors to their estimated collectable amounts b for any impairment losses identified in relation to tangible fixed assets

vi on the basis of the process we established to enable us to include the information required by FRS 17 "Retirement benefits" in our financial statements, and having made appropriate enquiries, we confirm that we are satisfied that the actuarial assumptions underlying the valuation of scheme liabilities are consistent with our knowledge of the business. 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)

vii the financial statements are free of material misstatements, including omissions

viii we acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud

ix 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

x we are not aware of any irregularities, including fraud, involving management or employees of the Council; nor are we 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 or other loss. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice

xi 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 12

xii 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

xiii 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

xiv 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

xv we have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements xvi 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

xvii as far as we are aware:

a valuations of investments in companies included in the accounts are based on appropriate estimation techniques

b all known liabilities in respect of equal pay/ single status have been recognised in the accounts

xviii 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

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 as at 24 September 2009 no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 24 September 2009.

Signed on behalf of Manchester City Council.

Name ....

Position ....

Date ....