



Manchester City Council

Audit of Accounts 2009-10
Annual Report to those Charged with Governance

21 September 2010

Contents

1	Executive Summary	1
2	Detailed Findings	4

Appendices

A	Reporting requirements of ISA 260	13
B	Adjustments to the financial statements	16
C	Action Plan	18
D	Draft Letter of Representation	22

1 Executive Summary

Purpose of the report

ISA 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of Manchester City Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial Statements Opinion

- 1.5 The Council produced its draft 2009/10 accounts in advance of the 30 June 2010 deadline and presented them to the Audit Committee on 24th June 2010. As in previous years, the working papers were of a good standard and were presented for audit through an electronic working papers library.
- 1.6 The key messages arising from our review of the Council's financial statements are that:
 - the financial statements included enhanced disclosures and presentation, following recommendations from our review of the presentation of accounts, which have significantly improved the overall presentation of the accounts
 - a reduced number of amendments were identified through our audit, with no amendments impacting on the general fund
 - the Council has complied with the 2009 SoRP requirement to restate its accounts and reassess the accounting treatment for Private Finance Initiative (PFI) schemes. This has led to six PFI schemes being accounted for on balance sheet. The Council engaged specialist advisors to model the required accounting treatment and we have concluded that the figures stated in the Council's accounts

are consistent with these models and are in line with applicable accounting standards

- the Council responded positively to our recommendations from previous audits and has met the 2009/10 WGA submission deadline, providing the WGA consolidation packs for audit on 30 July 2010. The audit of the WGA consolidation pack is ongoing and will be completed in accordance with the deadline of 30 September 2010. We will provide a verbal update of our findings to the Audit Committee
- the Council's financial position continues to be healthy, underpinned by robust budget setting and monitoring procedures. However, the Council's medium term financial planning will need to be closely scrutinised and continue to be developed in the current economic climate.

1.7 Key areas for action ahead of the preparation of the 2010/11 accounts are:

- the Council should update agreements for the Mental Health Pooled Budget with NHS Manchester, including in year contributions and responsibility for any overspend
- whilst the Council is broadly on track with its IFRS transition plan, recent effort has focussed on the preparation of the 2009/10 accounts, which is in line with our observations nationally. There are several key IFRS accounting areas where the Council now needs to focus attention as a matter of priority, in order that its target date for completing the IFRS restatement process is met.

1.8 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 30 September 2010.

1.9 Further details of the outcome of our financial statements audit are given in Section Two and Appendix B and C (adjustments to the financial statements and action plan).

Value for Money Conclusion

1.10 In providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to report that we propose to issue an unqualified Value for Money conclusion.

1.11 The key messages arising from our review of the Council's arrangements have been reported to the Council's senior management team and will be summarised in our Annual Audit Letter.

The way forward

1.12 Matters arising from our audit have been discussed with the City Treasurer. We have made a number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the City Treasurer and his senior finance team.

Use of this report

- 1.13 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation, included at appendix D.

Acknowledgements

- 1.14 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

21 September 2010

2 Detailed Findings

Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements.

Status of the audit

- 2.2 We carried out our audit in accordance with our Accounts Audit Plan, which was presented to the Audit Committee on 14 January 2010. Our audit is substantially complete, subject to the following finalisation procedures:
- review of the final version of the financial statements
 - auditing the Council's Whole of Government Accounts return
 - obtaining and reviewing the Council's Letter of Representation
 - updating our post balance sheet events review, to the date of signing the accounts.
- 2.3 We anticipate providing an unqualified opinion on the Council's financial statements and group accounts, following approval of the accounts by the Audit Committee on 30 September 2010.

Presentation of accounts

- 2.4 We summarised the results of our review of the Council's accounts in our interim accounts audit report, highlighting key areas where the Council could improve the content and presentation of the accounts.
- 2.5 We are pleased to report that the Council responded positively to our suggestions, and, as previously reported, was already considering several of these improvements. Notable improvements in the accounts presented for audit included:
- improved presentation of information in the explanatory foreword
 - introductory explanations of core financial statements and disclosure notes
 - improvement to the logical ordering of notes to the accounts
 - clearer cross-referencing of accounts disclosures.

Key risks

- 2.6 Our 2009/10 Accounts Audit Plan set out the key risks relating to the audit of the financial statements. As part of our final accounts audit we reviewed the audit risks and, where these risks are not specifically referred to elsewhere in this report, have set out in Exhibit One the outcome of work completed. Our review of the risks facing the Council has not identified any additional risk areas.

Exhibit One: 2009/10 Key audit risks

Key audit risk	Conclusion
2009 SoRP: Prior Year Adjustment (PYA) to the core financial statements for Council Tax (CT) & National Non-Domestic Rates (NNDR)	
<p>In previous years the SoRP required billing authorities to account for CT and NNDR in the core financial statements at a gross amount. However, from 1 April 2009 the Council's accounts should:</p> <ul style="list-style-type: none"> • disclose CT balances net of any amounts that relate to other preceptors (Police and Fire) • only recognise NNDR cash collected in excess of the Council's cost of collection allowance. 	<p>The Council has restated the financial statements in accordance with the requirements of the 2009 SoRP. Our audit confirmed that the Council has correctly restated the financial statements in accordance with the SoRP, with the impact of the change clearly set out in an explanatory note in the accounts.</p>
Airport loan restructure	
<p>During our audit planning, the Council was considering a proposal from Manchester Airport Group PLC to restructure existing debt outstanding under the 1994 Facility Agreement between the Airport and 10 AGMA authorities, including Manchester City Council.</p> <p>£151m remains outstanding under the agreement, of which £83m is held by the Council, with the other 9 local authorities holding 5% each.</p>	<p>The loan restructure was completed on 9 February 2010 and resulted in a small increase in the amount owed to the Council following the inclusion of debt that was previously the responsibility of the Greater Manchester Debt Administration Fund. We have agreed this to signed agreements and the Council has correctly recognised the debt as a long term debtor within the accounts.</p>
Follow up of 2008-09 accounts audit findings	
<p>In last year's accounts audit report we raised a number of recommendations to further strengthen the Council's internal controls and financial reporting arrangements, including:</p> <ul style="list-style-type: none"> • ensuring receipts in advance are correctly recorded within the financial ledger • ensuring all assets are valued on the correct basis in accordance with the SoRP guidance for updating valuations following reclassifications • reviewing coding of income and expenditure within the SAP ledger to minimise the amount of manual adjustments required, and increase efficiency in producing the 	<p>Our review confirmed that the Council has strengthened controls and arrangements as follows:</p> <ul style="list-style-type: none"> • enhanced closedown guidance and departmental meetings were implemented to ensure the correct coding of receipts in advance. No issues were identified from our audit • the Council has obtained up to date valuations in accordance with the SoRP and accounting policies • the Council has reviewed the coding structure and reduced the number of manual adjustments required. However, some manual adjustments are still required and

<p>accounts</p> <ul style="list-style-type: none"> • reviewing the repairs and maintenance debtors on the housing rents system and removing erroneous debtors and associated bad debt. 	<p>the Council should consider whether a further review should be undertaken</p> <ul style="list-style-type: none"> • a review of the repairs and maintenance debtors was undertaken in year. Erroneous debtors and associated bad debts have been removed from the system and further rent debtors are kept under review.
---	---

- 2.7 The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

Matters arising from the financial statements audit

- 2.8 We were presented with the draft financial statements on 24th June 2010, in advance of the statutory deadline of 30 June 2010. The supporting working papers were also provided in accordance with the agreed timetable for audit.
- 2.9 Our requests for additional audit evidence were responded to in a timely manner by Council officers and we noted particular improvements in the evidence provided to us to explain year on year movements in the accounts. This built upon the principles we agreed with officers through a preparatory workshop during the accounts closedown period.
- 2.10 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process.
- 2.11 We have identified several improvements that can be made to the Council's audit trail supporting some entries in the accounts and we will discuss these with the finance team to assist with the preparation of the 2010/11 accounts.
- 2.12 A number of matters arose during the course of the audit which, whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in exhibit two, together with the associated recommendations for improvement, which are also set out in the agreed Action Plan at Appendix C.

Exhibit Two: Issues arising from the audit and resulting recommendations

Audit issue	Recommendation
<p>Accounting for Fixed Assets</p> <p>1) A number of schools finance leases, totalling £1.4m, have been recognised on the balance sheet for the first time, having been identified during the year. Whilst we are satisfied with the accounting treatment of these leases, lease documentation is held</p>	<p>Recommendation 1</p> <p>Corporate finance should retain copies of leases and evidence of review to support the accounting treatment of such leases.</p>

Audit issue	Recommendation
<p>within the schools and was unavailable during the audit.</p> <p>2) Our review of the fixed asset register identified a number of duplicate asset entries arising when assets are transferred between business areas. A new asset is created on the register and the old asset is restated to nil value, rather than being removed.</p> <p>3) Our audit identified two assets, totalling £1.4m, which were disposed of in prior years and had not been updated within the fixed asset register and accounts until 2009/10. These have been accounted for in the 2009/10 accounts as current year disposals.</p> <p>4) The Council impaired capital expenditure on HRA assets in 2009/10 by 48% to recognise HRA assets are valued net of social housing discounts. This was not supported by a formal revaluation although has subsequently been confirmed as reasonable by the valuer.</p>	<p>Recommendation 2 The Council should cleanse the data included in the fixed asset register and remove old assets with nil entries to ensure the integrity of the data included in the system.</p> <p>Recommendation 3 The Council should review its procedures for identifying disposed assets, ensuring the Corporate Finance team are notified of all disposals in the correct financial year.</p> <p>Recommendation 4 The Council should implement a procedure to formally revalue assets in the year expenditure over an agreed amount is incurred, to determine the extent to which expenditure has enhanced the asset, and any required impairment.</p>
<p>Reconciliation of NNDR debtors Our review of the reconciliation of NNDR debtors between the SAP and Academy system identified minor variances between the two systems.</p>	<p>Recommendation 5 Whilst these variances are immaterial for the 2009/10 accounts, the Council should fully reconcile the systems to ensure differences are not more significant in future years.</p>
<p>Pooled Budget Agreements The Mental Health Pooled Budget agreement states that the share of any overspend should be proportionate to the amount of funding contributed by each organisation and that the financial contribution should be agreed in advance of the financial year. However, we understand there is no formal agreement for contributions to the pool and the Council is disputing an overspend in relation to the amount incurred for secured accommodation.</p>	<p>Recommendation 6 We recommend that the Council ensures contributions are agreed in advance of the financial year and that responsibility for any overspend is clearly defined.</p>

Adjusted items

- 2.13 Our audit identified one adjustment which impacts on the Council's deficit, with no impact on general fund reserves.
- 2.14 The adjustment reclassifies a contribution of £980k made to the community care reserve which should be accounted for as a provision. This adjustment increases the 2009/10 deficit by £980k, however, there is no effect on general fund reserves as the expense has been transferred from earmarked reserves. This adjustment has been processed by management and is included at Appendix B.

Other accounts issues arising

- 2.15 In addition to the matters raised above, there were a number of other minor presentational and disclosure changes that arose during the course of our audit and these have been made to the accounts.

Accounting for Private Finance Initiative (PFI)

- 2.16 The most significant change within the 2009 SoRP required the Council to account for PFI contracts in accordance with the government's Financial Reporting Manual (FRM) to bring local authority accounting in line with central government bodies. The Council reviewed its six PFI schemes against IFRS guidance and deemed that they should be recognised on the Council's balance sheet for 2009/10. The Council appointed external consultants to prepare financial models to determine the initial valuation to be recognised.
- 2.17 The Council has reviewed the models and incorporated the associated journal entries to restate its prior year figures and account for the PFI schemes as on balance sheet. The Council has clearly shown the impact of the changes in note 2 to the accounts. The impact is to:
- increase the income and expenditure deficit by £27m. However, this has no impact on the general fund as an adjustment is made through the Statement of Movement on General Fund Balance
 - increase the value of assets on the balance sheet by £154m
 - increase the value of liabilities by £148m
 - increase the value of reserves by £6m.
- 2.18 We have reviewed the accounting entries derived from the financial models and concluded that the Council has correctly recognised the required entries within the financial statements. We made several recommendations to improve disclosure and presentation within the accounts, which the Council agreed to include, and have sought representation from the Council that it considers the assumption regarding operators return on the PFI schemes to be appropriate.
- 2.19 The Council is accounting for lifecycle costs as capital additions in the year expenditure is incurred, increasing the value of the PFI schemes and depreciating over the life of the PFI scheme. Whilst these figures are not material in 2009/10, they build up over the life of the PFI schemes. We recommend that the Council assesses the future requirements of IFRS for component accounting and considers whether the current treatment of lifecycle costs is appropriate and consistent with the 2010/11 Code of Practice on Local Authority Accounting (**recommendation 7**).

Group Accounts

- 2.20 The Council has good procedures in place to consolidate subsidiaries, associates and joint ventures into the group financial statements. Our audit of the consolidation entries confirms that the basis for consolidation appears appropriate. However, we did identify adjustments arising from the consolidation of the Manchester Airport Group (MAG) into the group accounts.
- 2.21 MAG is the most complex organisation to consolidate as it prepares its accounts under IFRS and these are converted into UK GAAP. However, the reconciliation provided included late GAAP adjustments as well as IFRS adjustments. Following receipt of additional information from MAG identifying the GAAP amendments required adjustments to the accounts were identified and these have been processed by the Council. The adjustments have led to:
- an increase in the 2009/10 I&E deficit by £3,135k
 - an increase in assets of £2,300k
 - an increase in reserves of £2,300k
 - a restatement of the 2008/09 accounts to increase assets and liabilities by £8,200k
- 2.22 Due to the timing of preparation of the group accounts, audited financial statements are not always available and the Council therefore bases consolidation entries on draft financial statements in these circumstances. Our audit identified that the Council restated prior year comparative figures to account for changes in the 2008/09 audited financial statements. These restatements are not material and have not arisen through a change in accounting policy. Therefore, we recommend that the Council should process these amendments through the in year consolidation for future group accounts (**recommendation 8**). No amendments have been included within the 2009/10 accounts.
- 2.23 The group accounts include organisations that are not material to the group. In future the Council should assess the accounting requirements of IFRS and consider whether consolidation of immaterial organisations is appropriate (**recommendation 9**).
- 2.24 From 2011, following the introduction of new 'clarity' International Standards of Auditing, our audit procedures relating to group accounts will become more detailed and involve closer ongoing liaison with auditors of material group organisations. We will discuss the implications of this with the Council as part of our 2010/11 audit planning.

Financial performance

- 2.25 The Council's financial position continues to be healthy, underpinned by robust budget setting and monitoring procedures. The Council's level of general reserves reduced during 2009/10 by £3.2m against a budgeted reduction of £5.9m. The main reasons for the overall budget underspend are due to VAT refunds and savings on capital financing costs. Departmental budgets showed only a minor overspend in year.
- 2.26 However, the current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. There continues to be uncertainty over the future levels of central government funding. This was highlighted during our audit, when the Council was informed that Performance Reward Grant would no longer be paid, despite the

Council submitting a claim for £1.1m having met performance targets under the original LPSA2 framework.

- 2.27 It is essential that the Council continues to develop its Medium Term Financial Plan to ensure that it is able to meet its responsibilities whilst maintaining adequate reserves. Analysis of the Council's useable reserves using the Audit Commission's financial ratio analysis tool showed that the Council has healthy levels of usable reserves compared to its level of general revenue expenditure, when compared to similar authorities. However, these reserves will need to be carefully managed in the current economic climate.

Evaluation of key controls

- 2.28 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements. However, as shown in exhibit two we have raised recommendations to improve controls in relation to fixed assets and SAP reconciliation procedures.
- 2.29 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts. However, recommendations to improve the IT controls environment were reported in separate reports to the Audit Committee in June 2010. We will follow up the Council's response to these recommendations during 2010/11.
- 2.30 We have reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to provide adequate assurance on the effective operation of controls. We have therefore taken assurance from the work of internal audit in our evaluation of controls. Our review of internal audit was reported in our interim report to the Audit Committee in June 2010.

Whole of Government Accounts

- 2.31 In 2008/09 and previous years, the Council did not meet the deadline for providing Whole of Government Accounts (WGA) consolidation packs for audit. This was primarily due to the complexities of the Council's group accounts structure and reporting issues within the SAP ledger.
- 2.32 The Council responded positively to our previous recommendations and has met the 2009/10 WGA submission deadline, providing the WGA consolidation packs for audit on 30 July 2010. The Council has put in place an effective structure within the ledger to efficiently prepare the required figures for the consolidation exercise.
- 2.33 The audit of the WGA consolidation pack is ongoing and will be completed in accordance with the deadline of 30 September 2010. We will provide a verbal update of our findings to the Audit Committee.

2009/10 Annual Governance Statement

- 2.34 Our interim accounts report concluded that the Council's arrangements for preparing the AGS continued to be effective and there had been further strengthening of arrangements during the year, including:
- development of a 'programme of improvement for significant governance arrangements' which provides an action plan for improvement of the most significant issues identified in the 2008/09 AGS. This programme for improvement has been regularly reported on and monitored during the year
 - establishment of a separate SMT Governance sub-group, which has responsibility for the development of governance arrangements across the Council and its partners and the production of the AGS. We have reviewed the minutes of the sub-group and it is clear that key governance issues such as risk management, partnership governance and monitoring the Council's programme of governance improvement are regularly discussed
- 2.35 Our review of the draft AGS has concluded that the document, as in previous years, is a comprehensive and balanced self assessment of the Council's governance arrangements and has been prepared in accordance with the CIPFA/SOLACE guidelines. We are satisfied that the areas identified for future improvement are consistent with our knowledge of the organisation.
- 2.36 We have recommended that the AGS should reflect the key elements of the governance of the Council's group structure and the Council has agreed to include some further narrative in the AGS.

IFRS Restatement

- 2.37 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition is being led by the core financial accounting team, overseen by an IFRS project board.
- 2.38 The Council is broadly on track with its IFRS transition plan. Priorities shifted to producing the 2009/10 accounts and responding to audit queries, which is in line with our observations nationally. However, the overall project plan remains on track with the project board receiving assurances that the key dates of 31 October 2010 for the opening balance sheet and 31 December 2010 for the restated 2009/10 accounts and skeleton IFRS compliant statements will be achieved. We have agreed that we will review the restated position in January 2011 to identify any significant issues on a timely basis ahead of the Council preparing the 2010/11 accounts.
- 2.39 Whilst a significant area of IFRS has been incorporated into the 2009/10 financial accounts through the change in accounting for PFI, other important areas where the Council needs to concentrate effort on are:
- assessment of the accounting for property leases
 - review of contracts for embedded leases

- ensuring the asset register is IFRS compliant and agreeing an approach to component accounting
- assessing the impact of IFRS on organisations within the group boundary.

2.40 We will continue to liaise with Council officers in these key areas in advance of the preparation of the restated accounts. We will communicate emerging issues that we become aware of so that these can be addressed as part of the restatement process.

Next steps

2.41 The Audit Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.

To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.

To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements. • We comply with the Auditing Practices Board's Ethical Standards. • We have not provided any non audit services in 2009-10.
Audit Approach	<p>Our approach to the audit was set out in our 2009-10 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes. • In 2009-10 we have been able to take assurance from the work of internal audit in respect of the key accounting systems.

ISA260 reporting requirement	Key messages
Accounting Policies	<p>The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009.</p> <p>The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by IAS 8.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>
Material Risks	<p>The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation, to state that there are no additional material risks and exposures as at 30 September 2010, which should be reflected in the financial statements. This is included at Appendix D.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at 30 September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>
Audit Adjustments	<p>We have discussed with management the adjustment to the accounts, primarily to improve the fair presentation of the financial statements, as well as the clarity and presentation of disclosure notes.</p> <p>These adjustments are summarised at Appendix B.</p>
Unadjusted Errors	<p>As at 30 September 2010, there were no unadjusted misstatements in the financial statements. We will provide the Audit Committee with a list of all audit differences which we would define as 'clearly trifling'.</p>
Other Matters	<p>We have made recommendations in respect of some areas for improvement in internal control. Recommendations and agreed action are listed in the Action Plan at Appendix C.</p>

B Adjustments to the financial statements

The table below lists all significant audit adjustments which have been processed and agreed with the Director of Finance.

Adjustment Type

Misstatement - A change to the value of a balance presented in the financial statements.

Classification - The movement of a balance from one location in the accounts to another.

Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	£000	Accounts balance	Impact on financial statements
Misstatement	980	I&E/Earmarked Reserves	The adjustment reclassifies a contribution made to the community care reserve which should be accounted for as a provision. Recognition of the expenditure increases the I&E deficit, however, does not impact on the general fund as this has been allocated to earmarked reserves.
Misstatement	3,135	I&E/Group I&E Reserve	In consolidating Manchester Airport Group's (MAG) accounts, a reconciliation from IFRS to UK GAPP is required and MAG prepare a reconciliation. However, this reconciliation included late UK GAAP adjustments, which could not be separately identified. Following receipt of additional information from MAG consolidation amendments were identified. These amendments increase the Group I&E deficit.
Classification	2,300	Assets/Reserves	
Classification (2008/09)	8,200	Assets/Liabilities	
Classification	1,989	Fixed Assets/Stock	The Council identified a change in useful economic life of Aids and Adaptations equipment, which reduced the value of stock in year. Review of the equipment included identified that disclosure is more appropriate within vehicles, plant and

Adjustment type	£000	Accounts balance	Impact on financial statements
			equipment and capitalised, with depreciation charged over the life of the assets.
Disclosure	12,172	Long-term contracts	A review of the disclosure note against the values arising from the PFI models identified differences in the split of the future undischarged obligations and total amounts payable. This amendment increases obligations under long term contracts in the accounts.
Disclosure	5,326	Contractual capital commitments	A review of contracts against capital commitments identified that the Council has overstated its disclosure. This amendment reduces the capital commitments included in the accounts.
Disclosure	N/A	Tangible Fixed Assets	Brought forward Gross Book Value for surplus and investment properties have been amended to agree to the prior year signed accounts.
Disclosure	N/A	Analysis of Revenue Government Grants in the Cash Flow Statement	Amendments to disclose the following: <ul style="list-style-type: none"> • DWP grant for benefits of £290,742,000. • Sure Start grant of £19,923,000.
Disclosure	N/A	Various	We have worked with the Council to improve disclosures within the accounts to enhance the overall presentation of the financial statements, which has resulted in various minor disclosure amendments.

C Action Plan

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
1	In 2009/10 a number of schools finance leases, totalling £1.4m, have been recognised on the balance sheet following in year identification. We requested a sample of supporting documents to assess the treatment, however, documentation is held within the schools and was unavailable during the audit due to schools being closed during the summer.	Corporate finance should retain copies of leases and evidence of review to support the accounting treatment of such leases.	M	Copies of these leases will be retained within Corporate Finance. Evidence of review to support the accounting treatment will also be retained.	March 2011 Rachel Rosewell and Karen Gilfoy
2	Our review of the fixed asset register identified a number of duplicate asset entries arising from transactions when assets are transferred between business areas and categories. A new asset is created and the old asset is restated to nil value.	The Council should cleanse the data included in the fixed asset register and remove old assets with nil entries to ensure the integrity of the data included in the system.	M	The Council will investigate whether this can be done whilst retaining the prior year history of these assets. If this achievable the timescale for data cleansing will be discussed with ICT.	December 2010 Karen Gilfoy and Janet Smith
3	Our audit identified two assets, totalling £1.4, which were disposed of in prior years and had	The Council should review its procedures for identifying disposed assets, ensuring the	M	Procedures for identifying disposals will be reviewed to	November 2010 Andy Prideaux and

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
	not been updated within the fixed asset register and accounts until 2009/10.	Corporate Finance team are notified of all disposals in the correct financial year.		ensure corporate finance are notified of all disposals in the correct financial year.	Tony Hudson
4	The Council has impaired all capital expenditure on HRA assets in 2009/10 by 48% to recognise HRA assets are valued net of social housing discounts. However, this impairment is not supported by formal valuations, although has subsequently been confirmed as reasonable by the valuer.	The Council should implement a procedure to revalue assets in the year the expenditure is incurred over an agreed amount to determine the extent to which this expenditure has enhanced the asset and any required impairment.	M	A procedure will be implemented to review expenditure over an agreed amount to determine the extent to which this has enhanced the asset.	December 2010 Helen Jones and Karen Gilfoy
5	Our review of the reconciliation of NNDR debtors between the SAP and Academy system identified minor variances between the two systems.	Whilst these variances are immaterial for the 2009/10 accounts, the Council should fully reconcile the systems to ensure differences are not more significant in future years.	M	The systems will be fully reconciled in future years.	April 2011 Karen Gilfoy and Paul Byrne
6	The Mental Health Pooled Budget agreement requires contributions to be agreed in advance of the financial year and overspends to be allocated to organisations	The Council should ensure that contributions are agreed in advance of the financial year and that the responsibility for any overspend is clearly defined.	H	The contributions will be agreed in advance of the financial year and the responsibility for any overspend clearly defined.	December 2010 Liz Bruce

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
	based on the proportion of initial contribution. There was no evidence of contributions being agreed and there is a dispute regarding the allocation of the overspend to the Council.				
7	The Council is accounting for lifecycle costs as capital additions in the year expenditure is incurred, increasing the value of the PFI schemes and depreciating over the life of the PFI scheme. Whilst these figures are not material in 2009/10, they build up over the life of the PFI schemes.	The Council should assess the future requirements of IFRS for component accounting and consider whether the current treatment of lifecycle costs is appropriate and consistent with the 2010/11 Code of Practice on Local Authority Accounting.	M	The future requirements of IFRS for component accounting will be assessed as will the current treatment of lifecycle costs	November 2010 Karen Gilfoy and Ceri Taylor
8	Prior year comparative figures within the group accounts are restated following receipt of final audited accounts, which were not available at the time of the prior year consolidation. These restatements are not material or a change in accounting policy.	The Council should process amendments to prior year group accounts in the current financial year unless these are fundamental or represent a change in accounting policy.	M	Amendments to prior year group accounts will be processed in the current financial year unless these are fundamental or represent a change in accounting policy	June 2011 Karen Gilfoy
9	The group accounts include organisations that are not material	In future the Council should assess the accounting	M	The accounting requirements will be reviewed and	October 2010 Karen Gilfoy

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
	to the group.	requirements of IFRS and consider whether consolidation of immaterial organisations is appropriate.		consideration will be given to the consolidation of immaterial organisations	

D Draft Letter of Representation

Grant Thornton UK LLP
No.1 Whitehall Riverside
Whitehall Road
Leeds
LS1 4BN

..... 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.

Name

Position

Date



Grant Thornton

www.grant-thornton.co.uk

© 2010 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication