



Auditor's Annual Report
Manchester City Council – Year ended 31 March 2023

5 December 2024

Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities

- A** Appendix A: Further information on our audit of the financial statements

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01

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Manchester City Council ('the Council') for the year ended 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued an unqualified opinion on 5 December 2024.



Wider reporting responsibilities

The Comptroller and Auditor General has issued his opinion and certificate on the Whole of Government Accounts for 2022/23. We are therefore not required to complete any WGA assurance reporting.

The Local Authority and Accountability Act 2014 gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.



Value for Money arrangements

We have completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.

02

Audit of the financial statements

Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2023 and of its financial performance for the year then ended. We issued an unqualified opinion on 5 December 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council's on 14 August 2024 and were of a good quality.

Significant difficulties during the audit

We encountered significant difficulties throughout the audit of the group accounts consolidation which resulting in many high value adjusted misstatements. We did however have the full co-operation of management during the audit

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider 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 reporting criteria that we are required to consider. The reporting criteria are:

 **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.

 **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.

 **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We did not identify any risks from our planning work.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11 - 14	No	No	No
 Governance	15 - 17	No	No	No
 Improving economy, efficiency and effectiveness	18 - 20	No	No	No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Background to the local government financial regime in 2022/23

Since March 2020 local authorities have faced a period of unprecedented challenge, both financially and economically, as they are responding to the impact of, and recovery from, the global Covid-19 pandemic. This led to significant changes in how the Council operates and delivers services to the residents and businesses of Manchester. Throughout the past three years, the Council has adapted to new ways of working in order to ensure the continuation of service delivery and the provision of new services to support the local communities through the pandemic.

The financial impact of the pandemic on the Council has been significant. During 2022/23 the Council continued to face additional costs and also the loss of income as a result of the financial scarring from the pandemic. Whilst the Council has received financial support from Government to address these issues, it clearly recognises this funding is one-off in nature. As such, the Council has continued to work to understand the longer-term impact of the pandemic, and to adapt its financial plans to take account of this over the medium term.

In addition to dealing with the recovery from the Covid-19 pandemic, the war in Ukraine has had an adverse impact on the UK economy, with resulting increases in energy costs, and supply chain issues. Inflation rates have also reached highs not seen in recent times. The subsequent increases in the cost of living, which are forecast to continue for the foreseeable future, will mean the Council needs to pay close attention to its budget position and reassess the impact at regular intervals in order to identify mitigations at the earliest opportunity.

2022/23 Financial statement performance

We have undertaken a high level analysis of the audited financial statements, including the Movement in Reserves Statement and the Balance Sheet.

The Council's balance sheet position has increased when comparing the net assets in 2022/23 of £4,492m to the prior year (£3,264m in 2021/22). The most significant change in the balance sheet relates to movement in the Council's share of the pension fund net asset/liability, which has moved to

a net pensions asset in 2022/23 for the first time, the total upwards valuation movement is £1,186m. It is not unusual to see material movements in the net pension asset/liability and this is consistent with our experience at other local authorities. The net asset position was also typical across the sector for the 2022/23 financial year. We also note an increase in both property, plant and equipment and investment property asset balances, from £2,578m to £2,716m and £494m to £537m respectively, as a result of PPE additions and revaluation of the Council's assets in year. The level of cash and cash equivalents has dropped from £143m to £95m, however this level of cash and cash equivalents is still sufficient for the Council.

The Council's usable reserves decreased from £836m at 31 March 2022 to £720m at 31 March 2023. During the 2022/23 year the earmarked reserve held for Covid-19 grants and contributions (used to meet commitments over more than one year) has decreased by £117m as the Council have applied Covid-19 grants and contributions during the year. The General Fund reserve remained at a similar level (2022/23: £25.8m, 2021/22: £26.5m). Each year as part of the budget setting process the City Treasurer carefully considers the level of the General Fund reserve to be held to ensure it is sufficient.

The Council's reserves provide some mitigation against future financial challenges. However, the Council will need to ensure that any use of reserves to smooth the financial position over the next few years is properly planned. This is because reserves cannot be relied on to provide a long-term solution to funding gaps.

The Council's financial planning and monitoring arrangements

In March 2022, the Council set a balanced budget for the 2022/23 financial year with a total net budget for Council services of £691m. This required an increase in Council Tax of 2.99% (including 1% Adult Care precept). Throughout the year the Council regularly updated its budget forecast, enabling budgets to remain up-to-date. The budget for 2022/23 included £8.8m of savings proposals and £142m use of reserves. The high budgeted use of reserves in both 2021/22 (£185m) and 2022/23 (£142m) reflects the use of Covid-19 funding received in 2020/21 but which was unspent and added to reserves at the end of 2020/21, to be spent during 2021/22 and 202/23. The final revised net budget reported for the year was £706m.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability (continued)

The Council's financial planning and monitoring arrangements (continued)

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities, the Council's Corporate Plan, and the impact on resources of emerging challenges and risks. Where additional resources are required these are scrutinised and challenged before they are included in the budget estimates. Engagement with directorates and members are key parts of the budgeting arrangements, and from our review of the output and discussions with officers, these are detailed and extensive.

The Council reported its revenue outturn position for 2022/23 as an overall overspend of £4.5m. The main drivers of the overspend are the higher than budgeted for pay award; pressures on Children's safeguarding services; home to school transport demand and price pressures; and lower than budgeted for parking income, driven by changes to commuter behaviour post-pandemic. However, an overachievement of investment income and underspends across the Corporate Core partly offset these pressures. The Council provided regular reports of its financial position to Executive through the year. We have reviewed a sample of the reports presented for 2022/23. These reports were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a wide range of other financial measures. The Council follows an established timetable for reporting to Executive which includes reporting to directorate management teams and the strategic management team.

The Council has a very significant capital programme and continues to play a lead role in developing the City. In 2022/23 the capital budget approved in March was £533m, with a final revised capital budget of £579m reported in the year-end outturn report. Actual spending against the budget was £403.6m. This represents one of the largest deliveries of capital spend in the Council's history and is much higher than in previous years. During 2022/23 the Council has delivered several new schemes including; Gorton Health Hub; Gorton Library; Co-op Academy Belle Vue Secondary school, delivering 1,200 new school places; and Wythenshawe Cycling Hub. Other major projects have

continued during 2022/23 including the Town Hall Project and Factory International.

The capital budget monitoring and reporting mirrors the revenue budget monitoring. We reviewed a sample of these reports and this confirmed they provide timely detailed monitoring reports to key decision makers in the governance structure.

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The financial planning for 2022/23 recognised the importance of setting a balanced one year budget, alongside demonstrating the long term financial resilience of the Council. The 2022/23 budget approach was for a one-year budget, following the Government's decision to announce a three-year Spending Review in October 2021 followed by a one-year Local government finance settlement 2022/23 announced in February 2022

A key element of the budget setting process is identifying savings and funding gaps. The budget reporting to Executive and Council provides significant detail on the savings plans, in-year monitoring and outturn delivery at the year end. The budget report to Council in March 2022 set out the detailed savings plans and proposals for each directorate, along with the proposed impact on the Council's reserves until 2024/25.

The Council's budget setting process, which begins in the summer, is a detailed and comprehensive process. There is detailed consultation and discussion with officers and members on the assumptions and principles on which the budget is to be based. As part of the budget setting process, the Council explicitly identifies its savings requirements for the following years through detailed consideration of the budgetary pressures, funding estimates, and impact of national and local initiatives and policies. We reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. Our review confirmed the documents were comprehensive and detailed and the discussions were timely and delivered the intended outcomes to assist with the budget preparation.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability (continued)

Council's arrangements and approach to 2022/23 financial planning

The Council's arrangements for the 2022/23 budget setting process largely followed the arrangements in place for 2021/22.

The budget for 2022/23 was approved at the March 2022 Council meeting. The Council set a balanced budget with a total net budget for Council services of £691m with an increase in Council Tax of 2.99% (including 1% Adult Care precept). The 2022/23 budget included £8.8m of savings and efficiencies for the 2022/23 year, with total savings of £11m approved for 2022/23 to 2024/25 as part of the 2022/23 budget setting process. The Council budget planned to use £142m of reserves, £117m related to the reserve for Business Rates, required to smooth the impact of the Covid-19 pandemic on the Collection Fund. The majority of the reserve use was related to the Business Rates reserve. The projected General Fund and earmarked reserves at the end of 2022/23 were £318m.

We have reviewed the supporting evidence relating to the preparation of the 2022/23 budget and these demonstrate the arrangements are consistent with the previous year, were detailed and robust, and were properly applied.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Overall commentary on Governance

The Council's risk management and monitoring arrangements

The Council has an established risk management framework in place and embedded in the governance structure of the organisation. The Corporate Risk Register is part of this framework and is an articulation of the key risks impacting the Council. It is used to inform decision making, provide assurance over actions being taken to manage key risks and to inform directorate level risk management planning and mitigation activities

The Council has a risk management strategy sets out the Council's risk appetite and context to its risk management. The risk management arrangements incorporate service and directorate risk registers informed by detailed assessments of the key risks impacting on each area. These registers inform the Council's corporate risk register which sets out the key strategic and corporate risks. The risk registers apply a risk score alongside the Council's target score for each risk. The register includes the controls in place to mitigate the risks along with other sources of assurance, and enables the Council to manage the risks actively and take action where necessary. We have reviewed the risk management strategy along with examples of risk registers. Our review confirms the strategy is clear, and the registers appear comprehensive, containing sufficient and appropriate detail for Council officers and members to discharge their responsibilities.

The Council reports its risk registers through its governance framework, culminating in reports to the Audit Committee. Our attendance at the Audit Committee meetings has confirmed the Committee understands its role in the risk management framework. It provides challenge to management on the risk registers and corresponding risks and mitigating actions.

The Council has a team of internal auditors, led by the Head of Audit & Risk Management, who provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. The annual Internal Audit plan is ordinarily agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. In 2022/23, the Audit Plan was presented to the Audit Committee in April 2022. The plan for 2022/23 was developed

in a time of significant challenge and change as the Council continued to respond and recover from the Covid19 pandemic.

The internal audit plan is based on an assessment of risks the Council faces and is planned to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work is supplemented by ad hoc reviews in respect of suspected irregularities and other work to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2022/23 and 2023/24 and confirmed they are consistent with the risk-based approach. The Council has comprehensive anti-fraud and corruption policies which are updated as required. In 2022/23 a continued focus of the Council's anti-fraud work was in implementing processes to minimise any loss on business grants by putting in place checks to minimise fraud/ loss before payments were made to businesses.

Internal Audit progress reports are presented to Audit Committee meetings routinely throughout the year, including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Audit & Risk Management provides an opinion based on the work completed during the year. For 2022/23 the Head of Audit & Risk Management concluded a reasonable level of assurance could be given that the Council's overall framework of governance, risk management and control remains appropriate and had been complied with. . This is an equivalent opinion to that issued in the previous six years and reflects that overall governance, financial management arrangements and core systems and processes within the Council remained largely effective. The Council continues to respond to a wide range of risks and issues with areas for further improvement identified through audit and other assurance work, but these are counterbalanced by a number of key strengths.

Throughout the year we have attended all Audit Committee meetings. These meetings have received regular updates on both internal audit progress and risk management. Audit Committee members engage with the reports and challenge the papers and reports which they receive from management, internal audit and external audit.

VFM arrangements – Governance

Overall commentary on Governance

The Council's risk management and monitoring arrangements

Council arrangements for budget monitoring and budgetary control

The Council has established budget monitoring arrangements in place. The Finance service is configured to align to the Council's management portfolio structure. Members of the Finance Team are assigned to specific service areas and work closely with cost centre managers to review, discuss and agree the financial pressures/ issues impacting on specific service areas. At the end of each month, a Portfolio dashboard is prepared which contains all relevant financial information. Forecasts are produced for cost centres, service areas and the whole Portfolio. These are discussed and agreed with relevant Directors and managers.

There is a detailed budget monitoring timetable to which the Finance service works to ensure reports are timely. Overall financial monitoring reports are prepared encompassing the whole Council position for both Capital and Revenue. The format of the reports ensures relevant information is available. We have reviewed a range of the reports and conclude they are appropriately detailed and comprehensive to provide members with the current financial position and the future challenges and risks ahead.

Council decision making arrangements and control framework

The Council's decision making arrangements are established in the Council Constitution. Decisions are either made by members (Council, Executive, or other decision making committees) or delegated to Executive portfolio leads, or officers. The Constitution sets out clearly the approach to decision making. The Council also has a range of overview and scrutiny committees and sub-groups that challenge and scrutinise Council decisions.

Reports provided to support decision making include an assessment of the revenue and capital financial impacts and other key impact areas such as risk management, legality and equal opportunities.

The Council operates an Audit Committee which has the appropriate status in the organisation to challenge management and obtain assurance on the operation of the internal control framework. The Committee has an agreed workplan and, where necessary, asks management to report on specific internal control issues. This includes asking management to attend meetings to answer questions. The Audit Committee met regularly throughout the year and routinely considered key reports on internal controls.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Council's arrangements for assessing performance and evaluating service delivery

The Council prepares performance monitoring and financial monitoring reports which are regularly reported through the year. The monitoring of the achievement of the Corporate Plan priorities is supported by accessible detailed dashboards. These are presented alongside narrative reporting of the actual performance, progress to achieving targets, current and known future challenges and an assessment of how the Council is doing. The financial monitoring position is reported separately to performance monitoring but both provide a detailed and insightful summary of the Council performance and provide up to date evidence to inform decision making. The monitoring is also used to identify service delivery challenges, for example where increased costs are incurred to address service backlogs or underlying underperformance. Where such issues are highlighted through financial monitoring, the resources required as an investment to address this are identified.

The Council produces a range of value for money analysis, including annual benchmarking of outcomes and unit costs against similar Councils. The Council uses benchmarking tools to inform its understanding of its performance. As well as using some off the shelf benchmarking tools, the Council also has a corporate Performance, Research & Intelligence service. This service provides a valuable source of advice on performance monitoring methodologies for projects and directorates, as well as interpreting data and performance monitoring information.

The Council's arrangements for effective partnership working

The Council's key partnerships include a wide range of organisations as is expected for a very large and complex Council. These include service delivery partnerships, statutory partnerships, and commercial partnerships.

The Council monitors its delivery through key partnerships including an ongoing assessment of risk as set out in its Register of Significant Partnerships which is reported to the Audit Committee

annually. This summarises the significant partnerships the Council has alongside a rating of assurance the Council considers the partnership arrangements provide. This is informed by discussions and assessments involving the partnership link officer, moderated by Council officers from a range of service areas. The register presented to Audit Committee in June 2023 included 47 significant partnerships, only three of which was reported as having limited assurance of controls over the partnership, and 41 were rated as having the highest level of assurance. This position is largely consistent with the previous year and provides good information to the Council on the level of risk in its partnership working.

In November 2022, the Council's internal audit team highlighted issues to the Audit Committee relating to outstanding audit recommendations as well as management and governance arrangements at one of the Council's significant partnerships, the tenant management organisation (TMO) AVRO Hollows. In February 2024 the Council arranged for an independent review to be completed and issued to the TMO Board. The review highlighted serious governance, financial management and service provision failings and provided an action plan for improvement, which the TMO have started to implement. The Council are committed to working closely with the TMO to improve arrangements but concerns have continued and officers have been unable to provide assurance that the recommendations have been effectively addressed. The Audit Committee have highlighted this as a key risk for tenants and for the Council, particularly given lessons learned from the Grenfell Inquiry and changes in social housing standards and regulation. Audit Committee will receive regular updates on the TMO, progress against the action plan and proposals to secure improvement in arrangements

The "Our Manchester Forum", which is chaired by the Council's leader, supports development of effective relationships across leaders of the city's key private, public, voluntary and community sector organisations and our residents. The Our Forum oversees the Council's other city-wide governance boards and has strategic oversight and coordination of the work delivered by the city's main partnership boards.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The introduction of the Integrated Care System (ICS) arrangements at Greater Manchester level continues to drive the next phase of health and social care integration between the Council and the NHS. The operating model for Manchester’s health and social care integration is key to enabling further progress towards achievement of the priorities for the city. The Council, along with other Greater Manchester Council’s and the ICS, have ambitions for the city to significantly improve health outcomes, tackle health inequalities and develop a financially and clinically sustainable system. In June 2023 the Manchester Partnership Board was established as a public committee, which is sub-committee of the NHS GM Integrated Care Board (ICB), and brings together the senior leaders of the City Council, NHS (primary, secondary and community and mental health services) and the voluntary, community and social enterprises (VCSE) from across the city. Its role is to focus on shared priorities to improve the health and well-being of the people of Manchester.

The Council’s arrangements for procurement and commissioning services

The Council’s Constitution contains a chapter on the Contract Procurement Rules. This sets out the detailed process the Council must follow when procuring goods or services. We have reviewed the procedure rules and this confirms they are comprehensive and cover the procedures, the quotation and tender process, using frameworks, post tender evaluation and contract monitoring procedures.

To support procurement, the Council has centralised procurement team. This team provides a key source of procurement expertise. The team are required to be involved in procurement contracts above £30,000 and lead the procurement process in many cases. The Council controls in place to manage procurement effectively include completion of a pre-tender form to evidence the approval for the procurement and that financial and legal requirements have been followed. The support provided by the procurement team includes training to officers involved in the procurement process, enabling a clear common understanding of the approach and compliance requirements. The Council appoints contract managers who have responsibility for managing the contract. Directorates record their

contracts in registers to track all the contracts within their portfolio.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to improving economy, efficiency and effectiveness.

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts ('WGA') submission. We understand that the Comptroller and Auditor General plans to issue his opinion and certificate on the WGA in November 2024, therefore before the date which we plan to issue our audit report for the Council. We are therefore anticipating that no further work will be required by us in respect of the WGA submission.

Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in February 2024. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Code Audit Work – Scale fee	£189,379	£159,519
Additional fees:		
Recurrent scope changes: Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes	£50,000	£48,000
Enhanced auditor reporting	£6,000	£5,625
VFM (Code changes)	£12,500	£12,500
Group accounts including corrections of prior year errors and revaluation reserve issues	£45,000	£20,000
Specific accounting and quality issues	£25,000	£30,000
Revised ISA 315	£10,000	-
Total fees	£337,879	£275,644

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

Appendices

A: Further information on our audit of the financial statements

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Net defined benefit liability (or asset) valuation (Council & Group)</p> <p>The net pension liability (asset) represents a material element of the Council balance sheet. The Council is a scheduled employer body within the Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2022. 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. There are financial assumptions and demographic assumptions used in the calculation of the liability, 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. There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the Council's net pension liability in 2022/23.</p>	<p>We have completed our work. Other than the adjusted and unadjusted misstatements noted, we have no matters to bring to the Committee's attention.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

Risk	Our audit response and findings
<p>Management override of controls (Council and Group)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation 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.</p>	<p>We have completed our work. As part of our audit testing of journals we identified 80 journals for detailed testing, through our testing of these journals we found no evidence of management override of controls.</p> <p>There were no matters identified from the work to report to the Audit Committee.</p>
<p>Risk of fraud in revenue recognition (Group – Component Manchester Airport Holdings Ltd)</p> <p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>The risk at the component level of Manchester Airport Holdings Ltd relates to:</p> <ul style="list-style-type: none"> • The risk that management overstate revenues to meet targets using topside journals; • The risk of error in the measurement of aviation income and rebates due to the complexity of terms with airlines; and • The risk that pre-booked parking income is recognised in an incorrect period due to management override of data inputs in the deferral calculation. 	<p>We have completed our work. There were no matters identified from the work to report to the Audit Committee.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

Risk	Our audit response and findings
<p>Valuation of property, plant and equipment (Council & Group)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in government guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence. The Council's two consolidated entities, MAHL and DML, account for their land & buildings at cost as permitted by their financial reporting framework. In consolidating their share of the two entities the Council must align the companies' accounting policies with their own. Consequently, for the group consolidation exercise the Council engages an external valuer to value the land & buildings consistent with the Council's accounting policies.</p>	<p>We have completed our work. We tested a sample of 50 assets, engaged our own experts to review 5 of these, and were satisfied that the valuations undertaken by the Council were reasonable and supported by appropriate evidence. There were no matters identified from the work to report to the Audit Committee.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

Risk	Our audit response and findings
<p>Valuation of Investment Properties</p> <p>The CIPFA Code requires that all Investment Property assets are held at fair value.</p> <p>The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materiality on the reported value. There are risks relating to the valuation process.</p> <p>The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of investment property due to the significant judgements and number of variables involved.</p>	<p>We have completed our work. We tested a sample of 26 assets, engaged our own experts to review 8 of these, and were satisfied that the valuations undertaken by the Council were reasonable and supported by appropriate evidence</p> <p>There were no matters identified from the work to report to the Audit Committee.</p>

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements

This section outlines the misstatements identified during the course of the audit. The table outlines the misstatements that were identified during the course of our audit which exceed the trivial threshold for adjustment of £1,095k. Management have assessed these as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Unadjusted misstatements

As part of the 2021/22 audit we reported an unadjusted misstatement of £1,905k which related to 2022/23 expenditure which had incorrectly been accounted for in the 2021/22 financial year. Therefore, the gross expenditure 2022/23 Comprehensive Income and Expenditure Statement is understated by £1,905k, the general fund balance as at 31/03/2023 is not impacted by this misstatement.

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of unadjusted misstatement
1	Debit: Net Pensions Asset			9,086		The auditor of the Greater Manchester Pension Fund identified an unadjusted error in the valuation of pension fund assets of £70m. £9m is the estimate of the Council's share of this error.
1	Credit: Pensions Reserve				(9,086)	
2	Debit: Assets Held for Sale			6,937		As part of our sample testing of disposals we identified that the Council had accounted for an asset as being disposed of, but the Council still owned the asset as at 31 March 2023. Because we identified this error in our sample testing, in line with our approach, we extrapolated the known error of £1,088k over the remaining untested disposals.
	Credit: Gains/Losses on disposal of non-current assets		(2,834)			
2	Credit: Unusable Reserves: Capital Adjustment Account				(4,103)	
-	Continued overleaf					

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements

Unadjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of unadjusted misstatement
3	Debit: Expenditure	6,160				As part of our expenditure cut-off sample testing of we identified errors whereby three sample items of expenditure with a total value of £132,667 had been accounted for in the wrong financial year. Because we identified these errors in our sample testing, in line with our approach, we extrapolated the known error of £132k over the remaining untested balance.
1	Credit: Accruals				(6,160)	
4	Debit: Revaluation Reserve			2,162		As part of our audit review of the Council's PFI models we challenged the Council on why the Brunswick PFI model did not include any PFI lifecycle costs, upon investigation by the Council the lifecycle costs had not been correctly accounted for. The PFI model has been revised to correctly classify the cumulative PFI lifecycle costs.
	Debit: Unusable Reserves: Capital Adjustment Account			220		
2	Credit: PFI Liability				(2,382)	
5	Debit: Unusable Reserves: Dedicated Schools Grant (DSG) Reserve			1,285		As part of our audit review of reserves we identified that an agreed DSG carry forward of £1,285k was incorrectly included within the DSG reserve (an unusable reserve). Under the regulations this carry forward should have been accounted with within the schools reserves within the General Fund.
	Credit: Usable Reserves: General Fund Reserves				(1,285)	
	Total unadjusted misstatements	6,160	(2,834)	19,690	23,016	

There are corresponding errors in the Cash Flow Statement (Cash Flows from investing activities) and the Movement in Reserves Statement (adjustments between accounting and funding basis).

Appendix A: Further information on our audit of the financial statements

Internal control observations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Audit Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	6
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Appendix A: Further information on our audit of the financial statements

Internal control observations

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our audit testing of property, plant and equipment disposals we identified an error whereby an asset had been accounted for as being disposed of but the Council still owned the asset as at 31 March 2023. This indicates that there is a lack of internal control over the review of the disposals listing.

Potential effects

There is a risk that the Council's financial statements are materially misstated due to property, plant and equipment assets incorrectly being accounted for as disposed of when the disposal has not occurred.

Recommendation

The Council should ensure that property, plant and equipment disposals are only processed when there is documentation to evidence that the disposal has occurred.

Management response

Previously the finance team have relied on information from development colleagues in relation to disposals as at 31 March. The information is cross checked against the capital receipt (where applicable) and the land registry records. Such documentation is not always available by the time the draft accounts are published.

Going forwards legal colleagues will be asked to confirm there has been an exchange of contracts in relation to the disposal.

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our audit testing of capital commitments we identified values were included for capital projects which had finished prior to 31 March 2023 and therefore there was no outstanding capital spend committed. This indicates that there is a lack of internal control over the review of the listing of capital commitments.

Potential effects

There is a risk that the disclosure of capital commitments in the Council's financial statements is materially misstated.

Recommendation

The Council should ensure a thorough review of the capital commitments as part of the preparation of the draft financial statements.

Management response

Documentation has been reviewed to ensure contracts have been entered in to and only these contracts will be included in this disclosure. Contracts are cross checked to the commitments in the finance system (SAP), including a reconciliation to contract value and understanding of any variations.

Appendix A: Further information on our audit of the financial statements

Internal control observations

Other deficiencies in internal control – Level 2

Description of deficiency

There is a balance of £263.9m of land and buildings and surplus assets which have not been formally revalued or indexed during the 2022/23 financial year. The CIPFA Code requires that the Council ensure that the carrying amount of assets does not differ materially from that which would be determined using current value at the end of the financial year. As part of the audit, we asked the Council to demonstrate that the £263.9m of assets were materially correct as at 31 March 2023, as it became apparent that this had not been considered as part of the year end close down procedures and the Council's work to demonstrate the asset values were materially correct was only completed during the audit period following our challenge questions.

Potential effects

There is a risk that the value of the Council's property, plant and equipment within the financial statements is materially misstated.

Recommendation

The Council should complete an assessment of the land and buildings and surplus assets which are neither formally valued or indexed during the year to ensure that the values are correct as at the balance sheet date.

Management response

Agreed. As part of 2023/24 closedown we will ensure that this exercise is carried out on the value of assets which are not formally revalued or indexed to provide assurance that they are materially correct as at 31 March 2024,

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our review of the Council's group accounts we challenged the Council on why the Manchester Heat Network was not consolidated. Although the Council carried out a comprehensive review of the entities within the group boundary, there was not an overall assessment of the value of the entities not consolidated.

Potential effects

There is a risk that the Council's group accounts could include omissions of group entities which could lead to the accounts being materially misstated.

Recommendation

The Council should continue to carry out a comprehensive review of the entities within the group boundary each year as part of the closedown procedures. Alongside considering each entity individually for consolidation in line with materiality a stand back assessment should be completed to ensure that the group accounts would not be materially misstated when considering all entities not consolidated.

Management response

Manchester Energy Network is now included in the updated Group Accounts as a subsidiary. It is agreed that the annual review of entities in which MCC have an interest will assess materiality at both individual company level as well as collectively when considering inclusion in the group accounts

Appendix A: Further information on our audit of the financial statements

Internal control observations

Other deficiencies in internal control – Level 2

Description of deficiency

Through our audit work we identified transactions with the Manchester Heat Network and The Factory International which met the CIPFA Code definition of a related party transaction which had not been included within the related party transactions disclosure note within the financial statements. This indicates a lack of internal control surrounding the completeness of related party transaction disclosures within the financial statements.

Potential effects

There is a risk that the Council omits related party transactions from the disclosures within the financial statements.

Recommendation

The Council should ensure a thorough review of transactions with related parties as part of the preparation of the draft financial statements, to ensure the disclosure is complete.

Management response

Related Parties are identified through various methods and every year the completeness and robustness of the process is improved. Subsidiaries, Associates and Joint Ventures are identified through the Company database which is maintained by Commercial Governance. There is also a review of officer and member directorships and declaration of interests. From 23/24 the review will also consider significant partnerships, which would pick up entities such as The Factory International.

Appendix A: Further information on our audit of the financial statements

Internal control observations

Other deficiencies in internal control – Level 2

Description of deficiency

We have identified that there are a number of properties which the Council have leased out to tenants where the tenant has taken occupancy of the property before the lease agreement has been finalised and signed.

Potential effects

There is a risk the Council is not receiving the rent for the property if the lease agreement is not in place in a timely manner. The Council is also open to other risks where the tenant does not have a current lease agreement in place.

Recommendation

The Council should ensure that lease agreements are signed and agreed by both parties prior to the tenant taking control of the property to ensure all properties leased out are subject to a contract.

Management response

Best practice is to ensure that leases are completed before tenants take occupation. There are a small number of occasions when a tenant has taken occupation of a premises while leases are finalised. This approach is adopted when there is a clear benefit to early occupation of a building with the risks of this approach weighed against the benefits. Risks are mitigated by measures including:

- limiting this approach to trusted partners;
- ensuring Heads of Terms, including payment terms, are agreed in advance;
- putting in place a temporary licence for occupation.

The appropriate mitigation is agreed in consultation with Legal Services.

Appendix A: Further information on our audit of the financial statements

Follow up on previous years recommendations

Follow up on previous internal control points

Description of deficiency

Our work on the Council's NNDR processes and controls identified that during 2021/22 the Council had not reconciled the ratable value and properties per the Valuation Office report to the Council's system.

Potential effects

Errors in either the VOA report or the Council's system data may go unresolved. We carried out additional audit procedures to reconcile the year end VOA report to the Council's system.

Recommendation

The Council should carry out regular reconciliations between the external VOA report and its internal system data.

2022/23 update

Management consider this recommendation to have been fully implemented. Reconciliation jobs have been run on 27 July 2022, 14 April 2023 and 7 December 2023 so the recommendation has been implemented. The team have recently received the latest full report from the VOA and will be carrying out the reconciliation this month.

We now consider this recommendation to have been fully implemented by management.

Follow up on previous internal control points

Description of deficiency

Our work on the Council's journal transfers considered whether the user processing the journal was an appropriate officer. Following discussion with the Council finance team, they concluded that two such users were not appropriate and their access rights should be amended to remove journal processing.

Potential effects

Inappropriate access to process journals increases the risk of journals being processed by mistake. We reviewed all journals processed by the two users and tested the significant journals which impacted on the reported financial position. No audit issues were identified from this testing.

Recommendation

The Council should regularly confirm that all users with journal processing rights remain appropriate.

2022/23 update

Management consider this recommendation to have been fully implemented.

The recommendation that we regularly confirm users with journal access rights remain appropriate is achieved. The systems team under carried out a specific exercise and strengthened the process with ICT colleagues on SAP access and joiners, movers, leavers.

We now consider this recommendation to have been fully implemented by management.

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