Annual Audit Letter

Stockport Metropolitan Borough Council

Year ended 31 March 2019

CONTENTS

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Stockport Metropolitan Borough Council and Group for the year ended 31 March 2019. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 30 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council and Group's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 Overall the draft accounts presented for audit were of a good standard. There was one material amendment arising from the audit to re-classify levies expenditure from cost of services to other operating expenditure on the Comprehensive Income and Expenditure Statement.
Other information published alongside the audited financial statements	Our auditor's report issued on 30 July 2019 included our opinion that: • The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO in June 2019, we plan to report to the group auditor in line with the requirements applicable to the Council's WGA return by the NAO deadline of 13 September 2019.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

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 and Group's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 30 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

		Council	Group
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level	£14.924m	£15.421m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.448m	£0.463m
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: Senior manager remuneration	£1,000	N/A

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Significant risk	Description of the risk
Management override of controls	In all entities, 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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion We have not identified any significant matters arising from our testing of the risk of management override of controls.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk	Description of the risk
Valuation of land and buildings	The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment (PPE), with the majority of property assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with these valuations especially within land and buildings, we have determined there is a significant risk in this area.

How we addressed this risk

We addressed this risk by performing work in the following areas:

- critically assessed the scope of the Council valuer's work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;
- considered whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, social housing statutory guidance, the CIPFA Code of Practice and the Council's accounting policies;
- critically assessed the appropriateness of the underlying data and the key assumptions used in the valuer's calculations;
- critically assessed the appropriateness of the social housing factor applied to the valuation of the Council Dwellings;
- critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;
- critically assessed the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correctly valued;
- tested a sample of revaluations in the fixed asset register to the valuer's report and the underlying information provided by the Council to the valuer; and
- tested a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

Audit conclusion

We have not identified any material matters to report regarding the valuation risk of land and buildings. There was a re-classification adjustment of £5.9m to reverse the accumulated brought forward depreciation on surplus assets.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk	Description of the risk
Valuation of defined benefit pension liability	The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016. 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 Council's valuation, 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 Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.

How we addressed this risk

We addressed this risk by performing work in the following areas:

- critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;
- liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;
- reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Reviewed the impact of the Guaranteed Minimum Pension and McCloud legal cases on the net pension fund liability; and
- agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit conclusion

We have not identified any material matters to report regarding the valuation of the Council's defined benefit pension liability. We reported an unadjusted estimation difference of £5.71m relating to the potential impact of the McCloud and Guaranteed Minimum Pension legal cases on the pension fund liability. This increased liability was estimated by the pension fund actuary after the production of draft accounts for audit.

2. AUDIT OF THE FINANCIAL STATEMENTS

Area of management judgement

Valuation of investment in Manchester Airport Holdings Limited	**Description of the management judgement** The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2019. The valuation is determined according to a methodology and applying assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.
	How our audit addressed this area of management judgement Mazars' in-house valuation team reviewed the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.
	Audit conclusion We have not identified any significant matters from our testing of the valuation of the Council's shareholding in Manchester Airport Holdings Ltd.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

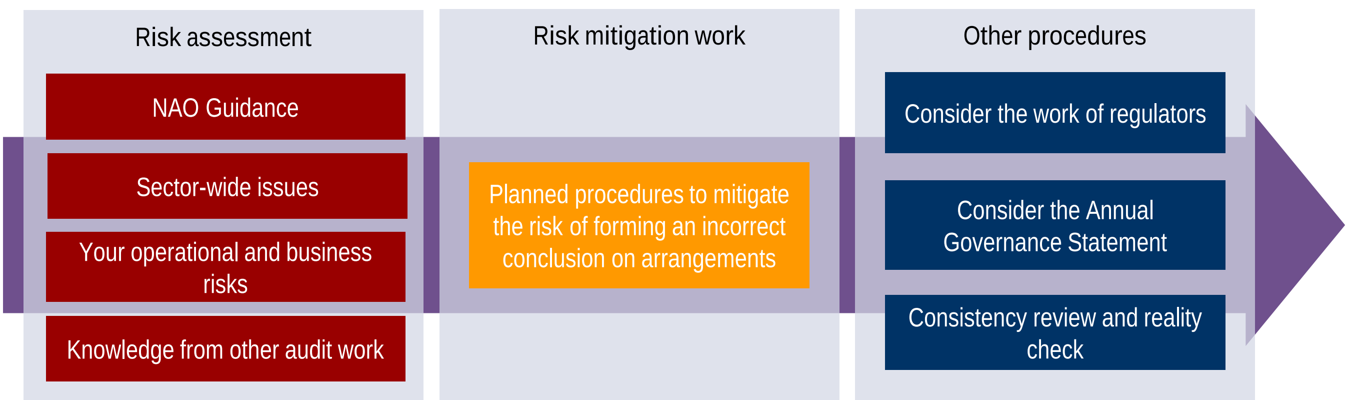
Our audit approach to value for money

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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

A summary of the work we have undertaken is provided below:



Significant value for money audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our value for money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant value for money risk relating to the Stockport Together governance arrangements underpinning effective health and social care integration.

Our overall value for money conclusion

Our audit report dated 30 July 2019 provides an unqualified value for money conclusion for the 2018/19 financial year.

The work we carried out in relation to the significant risk is outlined overleaf.

3. VALUE FOR MONEY CONCLUSION

Risk	Work undertaken	Conclusion
Stockport Together Governance The Stockport Together partnership vision created in 2015 was to bring transformational change to integrate health and social care. Such transformational change requires considerable resource deployment and partnership working to be effective. To address our understanding we have reviewed the governance and decision making arrangements that underpin the partnership	In June 2018 the CQC recognised Stockport Together as a pioneer for the integration of health and social care. The CQC report also commented on the slippage in delivering the strategic vision set out in 2015. Management across the partnership recognised this and has sought to respond positively to the challenge during 2018/19. A formal CQC action plan was developed, setting out the plans to accelerate progress and strengthen governance including oversight by the Adult Social Care and Health Scrutiny Committee, and the Health and Well-being Board (HWB). A Provider Alliance Board was also established with representation at senior level from each of the five key partners. Oversight at Membership level was provided by the HWB. Over the course of 2018/19 the Stockport Together vision has continued to change. Most significantly, there has been a shift from single to joint commissioning following the CCG's decision to withdraw from single commissioning in November 2018. The Council, recognising the financial and service quality challenges it faces, has therefore continued to work to transform it's adult social care service to better meet the needs of Stockport residents. A new Adults Social Care Operating Model has been developed in June 2019 together with a draft Implementation Governance structure for commissioning. The Stockport Neighbourhood Care (SNC) model is now being implemented across the Borough to deliver integrated care between Adult Social Care, NHS Community Health and Primary Care. Key appointments are now being made at the Council to strengthen health and social care including a new Director of Commissioning. Health and social care have now been brought together into a single member portfolio at the Council to further focus attention on the new the direction of travel. Financial governance is key given the scale of resources needed to deliver joint commissioning. Risk sharing takes place through a pooled budget arrangement. For 2018/19 the Council and CCG contributed £100.4m and £105.1m respectively. The Health and Care Integrated Commissioning Board has been created between the CCG and Council to discharge their duties in commissioning through the pooled budget.	We conclude that for 2018/19 the Council has made proper arrangements to address the governance risk surrounding health and social care integration. 2018/19 has seen the Council respond positively to changes in the vision and underlying governance arrangements for integrated health and social care services. Joint commissioning arrangements are now being developed in response to the CCGs withdrawal from single commissioning. It is recognised that further changes will be required to strengthen arrangements as the Joint Commissioning process develops.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	To be completed
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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 received one objection to the accounts from a local elector which we are currently considering. We will report our findings to the Council and the objector once our investigation is completed. The objection does not impact our audit opinion.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We plan to submit this information to the NAO by the 13 September 2019 deadline.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in December 2018.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee*
Delivery of audit work under the NAO Code of Audit Practice	£97,119	£97,719

*The final fee includes an additional charge of £600 in respect of work undertaken on the pension liability regarding GMP and McCloud legal rulings. This is subject to approval by PSAA Ltd.

Fees for other work

As reported in the Audit Strategy Memorandum, for 2018/19 we have provided accounts preparation, audit and tax services to the Council's subsidiary, Totally Local Company and Group for a fee of £32,500. Appropriate safeguards are in place to ensure independence requirements and ethical standards are complied with.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Government Spending Review

The Council will need to incorporate the outcome of the Spending Review in its Medium Term Financial Plan. The Government has announced that a one year spending review will be completed in September for 2020/21, with the next multi-year Government Spending Review being delayed until 2020. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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