



Audit Completion Report

Stockport Metropolitan Borough Council

Year ending 31 March 2020

CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor's report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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Mazars LLP
One St Peter's Square
Manchester
M2 3DE

Audit Committee
Stockport Metropolitan Borough Council
Fred Perry House
Edward Street
Stockport
SK1 3UR

1 September 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.


The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 12 August 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. Since we presented our ASM we have revised our consideration of significant risks as set out below:

- We identified in our ASM that there was a significant audit risk relating to the valuation of the Council's pension liability. We have subsequently identified that the significant audit risk applies to the Council's Group level and not just the Council single-entity financial statements, resulting in the pension liabilities of the Council's two wholly-owned consolidated subsidiary companies being considered significant risks.
- We identified in our ASM that there was a significant audit risk relating to the valuation of the Council's property, plant and equipment valuation. We have subsequently identified that the significant audit risk applies to the Council's Group level and not just the Council single-entity financial statements, resulting in the valuation of property, plant and equipment of the Council's two wholly-owned consolidated subsidiary companies being considered significant risks.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines the draft accounts were published on 19 June 2020. We acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721 234 043.

Yours faithfully



Karen Murray
Mazars LLP

Mazars LLP – One St Peter's Square, Manchester, M2 3DE
Tel: 0161 238 9248 – Fax: 0161 238 9201 – www.mazars.co.uk

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VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Stockport Metropolitan Borough Council ('the Council') and its group for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 9 September 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Valuation of Property, Plant and Equipment;
- Valuation of Defined Benefit Pension Liability; and
- Valuation of investment in Manchester Airport Holdings Limited.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. The opinion includes an 'Emphasis of Matter' paragraph which draws attention to disclosures in respect of the material uncertainty disclosed within the Council's property, plant and equipment and investment property valuations. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

The timetable for the Council's WGA submission has not yet been published by MHCLG, and NAO have not yet issued auditors with their group instructions. We will complete the required work to the MHCLG timetable as soon as possible once these details have been clarified.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Related Party Transactions	●	We are finalising our work on the completeness of related party transactions.
Investment Properties and Property, Plant and Equipment	●	We are completing the final elements of our testing of the Council's valuation of its land and buildings
Short Term Investments	●	We are awaiting direct confirmation for one investment within our sample
Cash and Cash Equivalents	●	We are awaiting receipt of one bank letter in respect of our work on school cash balances
Loans and Borrowings	●	We are awaiting direct confirmation for two loans within our sample
Pensions	●	We are completing the final elements of our testing of the Council's, and its subsidiaries' net Pension Liabilities We are awaiting the assurance letter from the auditor of the Greater Manchester Pension Fund following the completion of their audit
IT General Controls	●	We are awaiting responses in respect of our review of the Council's IT general controls
Group Accounts	●	We are finalising our work on the consolidation adjustments made to the Council's Group Accounts
Audit administration	●	The matters above are subject to our usual review processes including Partner and EQCR review.
Signed final statements and signed Management Representation Letter	●	We will complete our final review of the financial statements to confirm all expected changes have been made, upon receipt of the signed version of the accounts and letter of representation

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. EXECUTIVE SUMMARY (CONTINUED)

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in August 2020. Following further consideration we have updated our approach as previously documented in the ASM. In particular we concluded that the significant risk over the valuation of the Council's pension liability applied at the Council's Group level, and consequently we identified that the pension liabilities for Totally Local Company and Stockport Homes were also significant risks to the Council's Group audit.

We also concluded the significant risk over the valuation of the Council's property, plant and equipment applies at the the Council's Group level. We have identified the valuation of property, plant and equipment of Stockport Homes is also a significant risk for the Group audit.

Materiality

We set materiality at the planning stage of the audit at £15.485m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £16.309m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.489m based on 3% of overall materiality.

Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Stockport Council (parent)	NAO Code audit	Mazars LLP	A full audit of the Council financial statements and consolidation process	None
Totally Local Company (subsidiary)	Statutory audit	Hurst and Co	We undertook specific audit procedures relating to the company's net pension liability as reported in the Group financial statements. We also undertook desktop group analytical procedures on the financial information prepared for group reporting purposes using component materiality	Yes
Stockport Homes (subsidiary)	Statutory audit	Beever and Struthers	We undertook specific audit procedures relating to the company's net pension liability and property, plant and equipment balances as reported in the Group financial statements. We also undertook desktop group analytical procedures on the financial information prepared for group reporting purposes using component materiality	Yes

2. EXECUTIVE SUMMARY (CONTINUED)

Our audit approach continued

Group materiality

We set materiality for the audit of the Council’s group accounts on the same basis as the single entity accounts. At the planning stage of the group audit we set materiality at £16.093mm using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final group financial statements and qualitative factors is £17.066m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.512m based on 3% of overall group materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	<p>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.</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• 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. <hr/> <p>Audit conclusion</p> <p>We have not identified any significant matters arising from our testing of the risk of management override of controls.</p> <hr/>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of land and buildings and investment properties	<p>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment (PPE) including investment properties, 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.</p>
	<p>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none">• Critically assessed the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;• Considered whether the overall revaluation methodology used by the Council valuers is in line with industry practice, social housing statutory guidance, and the CIPFA Code of Practice;• Engaged an external valuations expert to review the appropriateness of the valuations of Merseyway Shopping Centre, Red Rock Leisure Complex, Holiday Inn Express and the Council's share of land at Manchester Airport;• Critically assessed the appropriateness of the underlying data and the key assumptions used in the valuers' calculations, using available third party evidence;• Considering whether the Council's valuation changes in 2019/20 are consistent with evidence of changes in industry published indices of changes in build costs;• Critically assessed the social housing factor applied to the valuation of Council Dwellings at both Council and Group level;• Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;• 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 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer; and• Tested a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.
	<p>Audit conclusion</p> <p>We are still finalising our work on this area. The Council's valuers have included material uncertainty paragraphs in their valuation reports due to the impact of COVID. We are considering the Council's disclosures in the accounts and the impact on our audit opinion as a result of this.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Defined Benefit Liability Valuation	<p>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 2019. 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.</p> <p>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 2019/20.</p>
	<p>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none">• 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 and obtained 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 valuations for the Council and the two subsidiary companies. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and• Agreed the data in the IAS 19 valuation reports for the Council and the two subsidiary companies provided by the actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.
	<p>Audit conclusion</p> <p>We are still finalising our work on this area although there are no matters arising from the work completed to date.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement Valuation of shareholding in Manchester Airport	Description of the management judgement <p>The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited (MAHL) at 31 March 2020. The valuation is determined under IFRS13 applying a consistent methodology to previous and applying key assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.</p>
	How our audit addressed this area of management judgement <p>Our approach to auditing the investment in Manchester Airport Holdings Limited included the involvement of the Mazars in-house valuation team.</p> <p>The 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.</p> <p>We reviewed the calculation of the valuation by the Council's external valuation expert in light of the update financial information available in July 2020 from the published MAHL financial statements for the year to 31 March 2020.</p>
	Audit conclusion <p>We have completed our procedures and there are no matters arising against the valuation of the Council's investment in MAHL.</p>

Management judgement Group consolidation	Description of the management judgement <p>Management assess which related organisations fall inside and outside the group boundary for consolidation purposes.</p> <p>For the two organisations management identify for consolidation (Totally Local Company Ltd and Stockport Homes Ltd), their accounts require adjustments from their UK GAAP compilation to an IFRS basis in order to be consistent with the Council for consolidation.</p>
	How our audit addressed this area of management judgement <p>We reviewed management's assessment of the group boundary and confirmed this was consistent with prior years and appropriate based on the Council's ownership and control of the consolidated entities.</p> <p>We reviewed the group consolidation process and confirmed this was based on up-to-date financial information provided by the two subsidiary companies. We performed analytical procedures at the group level and specific procedures on the significant risk areas as set out on page 5.</p>
	Audit conclusion <p>We have completed our procedures on the group consolidation and there are no matters arising. Our work on the significant risk areas remains in progress, as indicated on the preceding pages.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement Schools	Description of the management judgement
	Management judge whether schools fall inside or outside their control when determining which are included in the Council's financial statements.
	How our audit addressed this area of management judgement
	We reviewed management's assessment of who controls the schools within the borough for the purposes of inclusion within the Council's financial statements.
	Audit conclusion
	We have completed our procedures and there are no matters arising against the treatment of schools within the Council's financial statements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures. We have concluded they comply with the requirements of the Code and are appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 19 June 2020. This is significantly in advance of the revised national timescales for publishing draft accounts. The draft accounts were prepared to a high standard. Good quality supporting working papers have been made available in a timely manner and these have assisted our audit progress. Council finance officers have been very helpful in promptly answering our detailed audit queries.

Significant matters discussed with management

The significant matters we discussed with management through the audit included:

- The impact of COVID-19 on the Council's financial statements, including potential impact on risks of material misstatement. We concluded that there were no additional risks of material misstatement in 2019/20.
- The valuation of the Council's land & buildings and investment property. The outcome of this work is reported earlier in the report.
- The valuation of the Council's investment in Manchester Airport Holdings Limited. The outcome of this work is reported earlier in the report.
- The accounting treatment of the Council's investment in the new Manchester Airport car park company. The Council has updated its disclosure of the classification of this investment to report that it has designated the investment at Fair Value through Other Comprehensive Income.

Significant difficulties during the audit

There were no significant difficulties encountered during the audit.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2019/20 audit.

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 have not received any questions or objections during our audit from electors.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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.	None
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.	None
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.489m.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted and adjusted misstatements 2019/20

There are no unadjusted or adjusted misstatements arising from the audit.

Disclosure amendments

The Council has made a small number of amendments to the disclosures in the financial statements arising from the audit. These include the following items:

- Note 15 – Financial Instruments: The note has been updated to correct the classification of the Council’s investment in the new Manchester Airport car park company from amortised cost to designated at fair value through other comprehensive income and expenditure;
- Note 26 – Pension Schemes: The note has been updated to correct contributions to the Teachers Pension Scheme to £11.87m for 2019/20 and £17.2m for 20/21;
- Note 33 – Transactions with Related Parties: The narrative has been expanded to explain the nature of the relationships between the Council and the related parties;
- Note 35 – Leases: The note has been updated to include amounts relating to future minimum lease receipts from the Council’s share of land at Manchester Airport;
- Collection Fund Note 1 – The analysis of Council Tax Dwelling numbers has been corrected to agree with the Council’s records.

5. VALUE FOR MONEY CONCLUSION

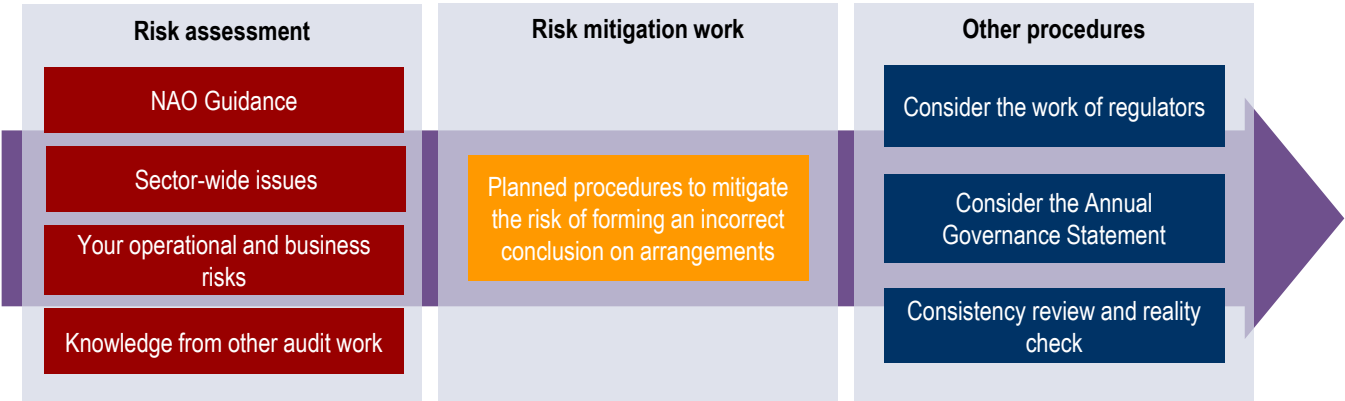
Our approach to Value for Money

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
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.



Significant Value for Money 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. The work we carried out in relation to significant risks is outlined on the following page.

Our overall Value for Money conclusion

Our draft auditor’s report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

Risk	Work undertaken and findings	Conclusion
Financial sustainability	Work undertaken	
<p>The Council's medium term financial strategy for the period 2020/21 to 2022/23 sets out the financial challenges it faces. Across the three year period there is a cumulative savings requirement of £17.0m. The Q3 reporting for 2019/20 indicates that the Council is projecting a surplus of £0.966m (forecast expenditure of £239.554m at 31 March 2020). Cash limited budgets are tightly controlled with the largest variance being an overspend within Adult Care and Health of £0.497m reflecting pressures felt nationally. This pressure is offset by the non-cash limited budget gain with the Manchester Airport Group Interim Dividend, declared in December 2019, being £0.929m above budget. This was not unexpected but the Council is prudent not to recognise the dividend until confirmed.</p> <p>Despite the favourable position at Q3, the continuing challenges the Council faces are not new and are not unique to Stockport Metropolitan Borough Council. The challenges therefore present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p>	<p>We reviewed the arrangements the Council had in place throughout 2019/20 for ensuring financial resilience.</p> <p>Specifically we reviewed whether the medium term financial plan took into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans. In addition to considering the Council's arrangements in place in 2019/20 in the context of the emerging impact of the COVID-19 pandemic.</p> <p>Findings</p> <p>The Council set robust and balanced budgets for 2019/20 and 2020/21. Detailed progress reports are provided to Cabinet on a quarterly basis allowing for effective monitoring of progress against budget.</p> <p>The Council's final reported outturn was a surplus position of £0.8m. This is following net transfers to the Council's earmarked reserves position of £5.8m which are available to support the Council in managing future financial pressures and supporting one-off positive investments in the local area.</p> <p>However, the outbreak of the COVID-19 presents a new and significant challenge to the Council's longer-term financial sustainability for the coming years. Additional cost pressures and reduced income have led to the need for the Council to reassess its 2020-21 budget and medium term financial strategy. Work is now well underway to monitor and assess the impact of the pandemic on the Council's operations and its financial position. The Council continues to respond to central government's request for monthly returns and as at the end of quarter one the forecast outturn for 2020/21 is a £10.4m deficit net of financial support received from government.</p> <p>The Council has significant levels of earmarked reserves as at 31 March 2020, but these are not sufficient to sustain the Council's financial position over the medium term given the estimated impact of COVID-19. The Council has acknowledged that it needs to quickly make difficult strategic decisions, particularly relating to its capital programme and through detailed reviews of the Council's Reserves Policy and Medium Term Financial Plan. Ensuring the Council remains in a robust financial position is essential.</p>	<p>We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.</p>

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

Date

Dear Karen

Stockport Metropolitan Borough Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Stockport Metropolitan Borough Council ('the Council') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director – Corporate and Support Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director – Corporate and Support Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

We confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours faithfully

Michael Cullen
Corporate Director – Corporate and Support Services

APPENDIX B

DRAFT AUDITOR’S REPORT

To follow.



APPENDIX C

INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Karen Murray

Partner

Phone: 0161 238 9248

Mobile: 07721 234043

Email: karen.murray@mazars.co.uk

Daniel Watson

Senior Manager

Phone: 0161 238 9349

Mobile: 07909 985324

Email: daniel.watson@mazars.co.uk