

Audit Committee
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27 November 2020

Dear Members

Conclusion of pending matters– Audit completion report

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit completion report dated 1 September 2020.

The outstanding matters and the conclusions reached are detailed below:

Matter	Conclusion reached
Related Party Transactions	We have completed our work on related party transaction disclosures and there are no matters to bring to the Committee's attention.
Investment Properties and Property, Plant and Equipment	<p>We have completed our work on the Council's valuations of investment properties and land and buildings.</p> <p>In respect of investment properties we engaged with an external valuer to review the valuations of Merseyway Shopping Centre, Red Rock Leisure Complex, Holiday Inn Express and the Council's share of land at Manchester Airport. In each case our valuer has confirmed the valuations to be reasonable. A small number of 'housekeeping' issues were identified in respect of the valuation records which will be discussed with management as part of the 2020-21 audit planning process.</p> <p>We note from our review of the Council's valuation of Council Housing that the valuation included £5m of shared ownership properties. Management confirmed the valuation accounts for 100% of the value of these properties. In our view the valuation should only take account of the Council's share of the shared ownership properties, however we</p>


	<p>accept this does not have a material impact on the overall valuation of the Council's properties.</p> <p>In respect of property, plant and equipment we sampled the valuations of 64 land and building assets. Through our detailed review of the valuation process and challenge of underlying assumptions we identified errors in four of the valuations. The net impact of these is a £192k understatement of property, plant and equipment. In order to confirm the errors identified are not indicative of a material error across the population we have extrapolated the error. This shows an extrapolated understatement of Property, Plant and Equipment of £3,254k. This provides assurance the valuation of Property, Plant and Equipment is materially correct. This is included in Appendix A as an unadjusted misstatement.</p> <p>Finally our work on the valuations confirmed the Council's valuer's had included a 'Material Valuation Uncertainty' paragraph in their valuation reports due to the impact of COVID-19 pandemic on the real estate market. Through our work we are satisfied this does not mean the valuations cannot be relied upon, only that less certainty can be attached to the valuations than would normally be the case. The Council has made appropriate disclosures regarding this in Note 4 to the accounts. Our audit opinion includes an 'Emphasis of Matter' paragraph which draws readers' attention to the appropriate disclosures. This does not constitute a modification to our audit opinion.</p>
Short Term Investments	We received the final direct confirmation required to complete our sample testing. There are no matters arising to report to the Committee.
Cash and Cash Equivalents	We received the final direct confirmation required to complete our testing of school's bank balances. There are no matters arising to report to the Committee.
Loans and Borrowings	We received the final two direct confirmations required to complete our sample testing. There are no matters arising to report to the Committee.
Pensions	We have received assurances from the auditor of Greater Manchester Pension Fund over the completeness and accuracy of data passed to the actuary. Through this we were notified of material uncertainty disclosures in relation to the Pension Fund's property investments. As the Council accounts for a share of these assets they have included disclosures on the material uncertainties in relation to the pension fund's property investment in Note 4. We have again referred to these

	<p>disclosures in the Emphasis of Matter paragraph within our audit opinion.</p> <p>Since issuing our Audit Completion Report two legal developments have arisen in respect local government pension schemes:</p> <p><i>McCloud Judgement</i></p> <p>The first issue related to the McCloud and Sargeant age discrimination cases. The actuary included an estimate of the impact of this case on the Council's pension liability in their valuation. This resulted in a past service cost of £5,386k. In July 2020 HM Treasury launched a consultation on the mechanism that they propose to use in order to remedy the transitional arrangements introduced as part of the 2015 reforms to public service pensions. We are satisfied the proposed remedy would only ever reduce the liability relating to the McCloud Judgement and as such we are satisfied there is no risk of material misstatement arising.</p> <p><i>Goodwin Judgement</i></p> <p>The second legal development relates to the 'Goodwin' case. Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages.</p> <p>The Goodwin case brought against the Secretary of State for Education earlier this year highlighted that the changes above may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor.</p> <p>The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances. Management considered the impact of this case on the Council's net defined benefit pension liability through discussions with Greater Manchester Pension Fund and the scheme actuary. The actuary confirmed the case would apply to a small subset of scheme members and the impact on individual employers would be immaterial. On this basis management have not obtained an updated valuation. We are satisfied there is no risk of material misstatement arising.</p>
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IT General Controls	Our review of the Council's IT general controls is now complete. We have identified a small number of recommendations which are included in Appendix B
Group Accounts	Our work on the group consolidation is complete. There are no matters to bring to the Committee's attention.
Review of post balance sheet events up to the point at which we sign our audit report.	Our post balance sheet events review is now complete. There are no issues to report to the Committee.
Completion of audit closure procedures and final manager and partner review including receipt of signed financial statements and letter of representation.	Our final audit procedures are now complete and we have received the signed financial statements and letter of representation.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours sincerely



Karen Murray

Partner

27 November 2020

Appendix A – Updated Audit Findings

Unadjusted misstatements

Details of adjustment	Assets £'000	Liabilities £'000	Reserves £'000	Income statement £'000
Dr Property, Plant and Equipment	3,254			
Cr Revaluation Reserve			-3,254	
Total	3,254		-3,254	
Description of adjustment Being the extrapolated impact of errors identified in the sample of property valuations. The actual net impact of these errors is an understatement £0.2m.				

Adjusted misstatements

There are no adjusted misstatements arising from our audit procedures

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 4 – Critical Judgements and Sources of Estimation Uncertainty: The note has been updated to disclose the material valuation uncertainty in respect of the pension fund property investments;
- Note 6 – Events after the Balance Sheet Date: The note has been updated to disclose the Council's investments made in Manchester Airport Holdings Limited after the year end;
- Note 11 – Property, Plant and Equipment: The note now confirms the valuation date for property valuations;
- 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 £14.87m for 2019/20 and £17.2m for 20/21;
- Note 29 – Officer Remuneration: Benefits in Kind figures have now been included on the senior officers note and the £50k banding note has been updated to correct for differences to payroll records;
- 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.

Appendix B – Control Recommendations

Medium Priority Recommendations

Description of deficiency

Our review of starters, movers and leavers identified 31 accounts where access had not been removed in a timely manner.

Potential effects

Unauthorised access to the Council's systems may lead to loss and compromise of data

Recommendation

Management should ensure that user access notifications occur following the user access management process for joiners, leavers and movers. Furthermore, management should ensure that Active Directory accounts are disabled in a timely manner for leavers and movers where appropriate.

Management response

IT receives a monthly report from HR for leavers and are working on producing a report for movers and/or other changes to be introduced shortly. Service Desk System is used for this function.

Description of deficiency

Our privileged access accounts identified the two accounts with generic names. Best practice is to link these accounts to a specific employee to enable a full audit trail of activity. We also noted one instance of an employee having a privileged access accounts on the basis of their previous role within the Council.

Potential effects

Unauthorised access to the Council's systems may lead to loss and compromise of data

Recommendation

Management should ensure that high privilege accounts are restricted to employees and access should be restricted in a timely manner.

Management response

In SAP high privilege accounts are system users for background processing, there is no log in available for these users.

Low Priority Recommendations

Description of deficiency

We noted from our review of SAP user accounts that no review of user access had been undertaken during the financial year.

Potential effects

Lack of user access accounts controls could lead to unauthorised access.

Recommendation

Management should ensure access to SAP is reviewed on a regular basis (annually as a minimum) with more regular review of those accounts with privileged access.

Management response

IT have been working on the controls relating to user access and will consider introducing annual reviews into these processes.

Description of deficiency

Our review of the Council's IT policies identified two policies which were past their review date.

Potential effects

Policies may not comply with current best practice if they are not reviewed and updated on a regular basis.

Recommendation

In order to ensure continuity of activities, policies and procedures should be updated and a review and approval logs should be part of the document to ensure they are updated.

Management response

IT will look at its planning processes to ensure that policies are reviewed in a timely manner.

Description of deficiency

Our sample testing of 25 change management processes identified one case where no evidence of approval was available for inspection.

Potential effects

There is a risk of deployment of unauthorised changes without proper authorisation.

Recommendation

Management should ensure that changes are approved prior to being implemented and a failsafe is in place for when users are ill/on leave.

Management response

The Service Desk System is used for this function and approval is recorded in this system. Procedures are in place to ensure approval is received prior to implementation.
