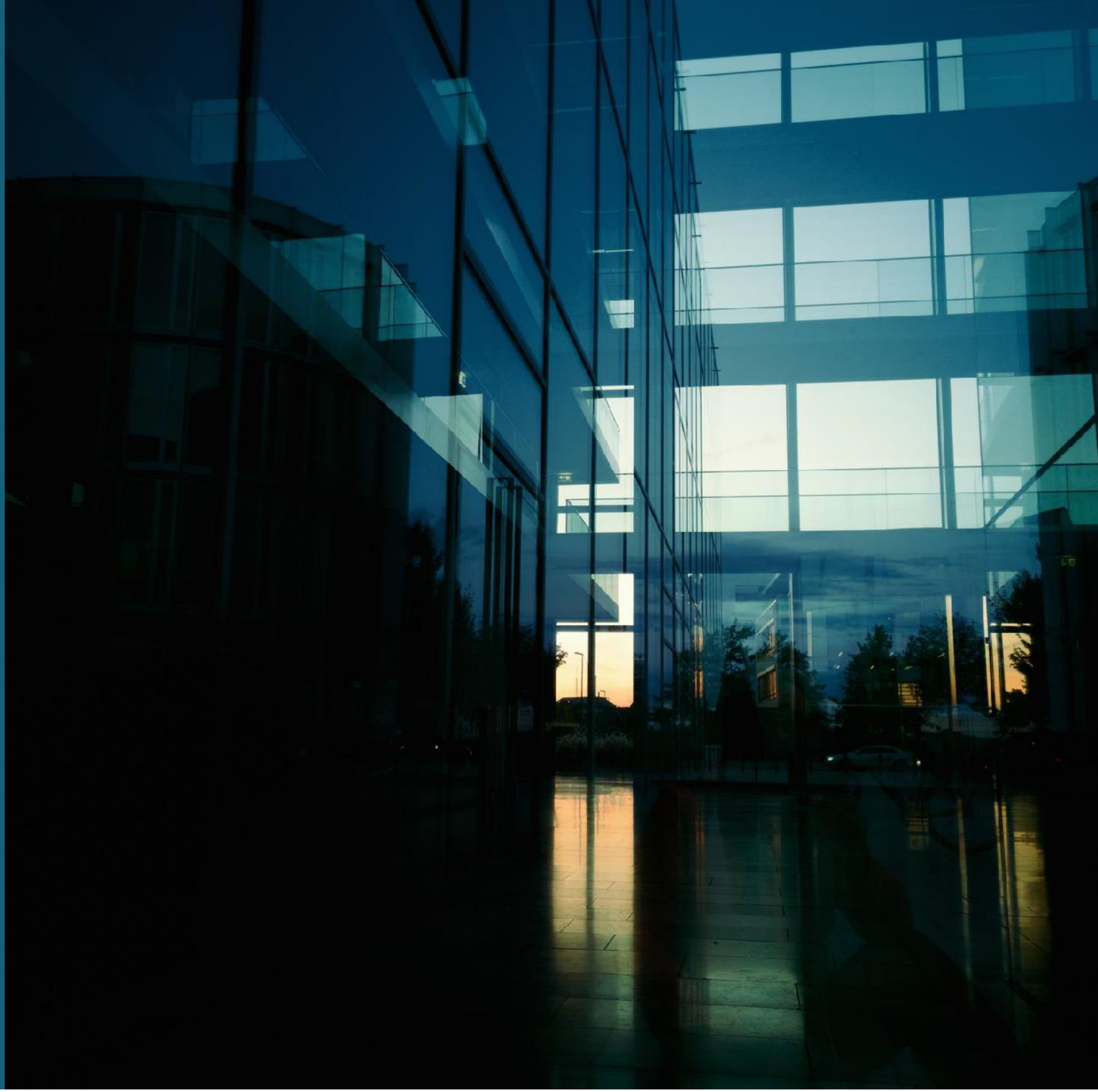
Auditor's Annual Report

Stockport Metropolitan Borough Council – year ended 31 March 2023

December 2023



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Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Stockport Metropolitan 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 our audit report on 1 December 2023. Our opinion on the financial statements was unqualified.

Value for Money arrangements
In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements

Wider reporting responsibilities
The Council is below the threshold for detailed testing as set out by the NAO in their group instructions. On 1 December 2023 we reported this to the group auditor in line with their instructions. The NAO are in the process of selecting a sample of Councils below the threshold for detailed testing.

We are unable to issue our audit certificate until the NAO confirms whether the Council is included in this sample.

The Local Audit and Accountability 2014 Act 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.

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Section 02:

Audit of the financial statements

2. 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. Our audit report, issued on 1 December 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

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 on 7 July and were of a good quality. 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 and ensuring that Council officer colleagues have prioritised responding to our audit queries.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Reporting responsibility	Outcome
Annual Report	We did not identify/ any significant inconsistencies between the content of the annual 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.

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Section 03:

Commentary on VFM arrangements

3. 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.

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:

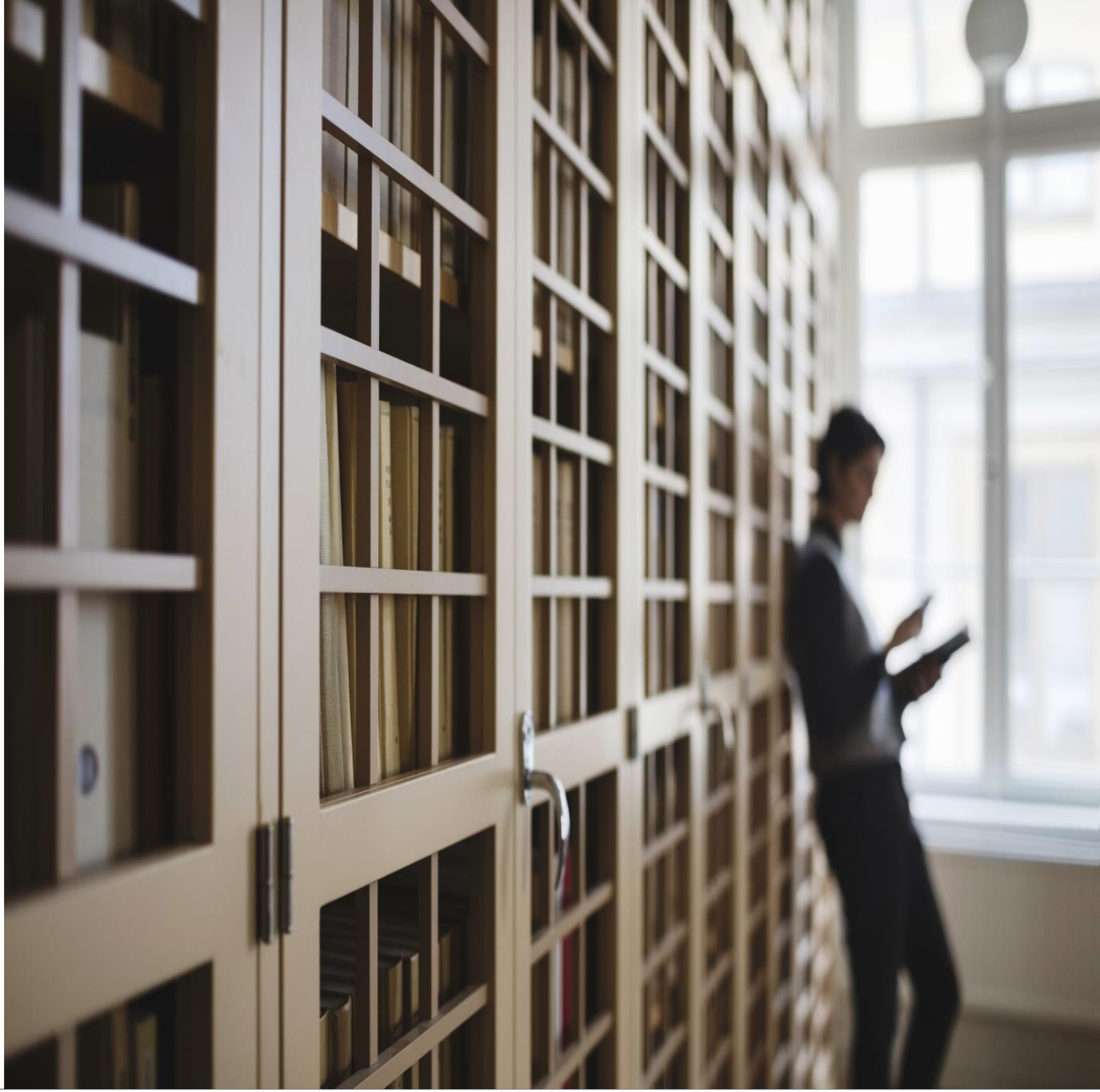
- **Recommendations arising from significant weaknesses in arrangements**
  We make these recommendations for improvement where we have identified a significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses 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.

3. Commentary on VFM arrangements

Overall summary

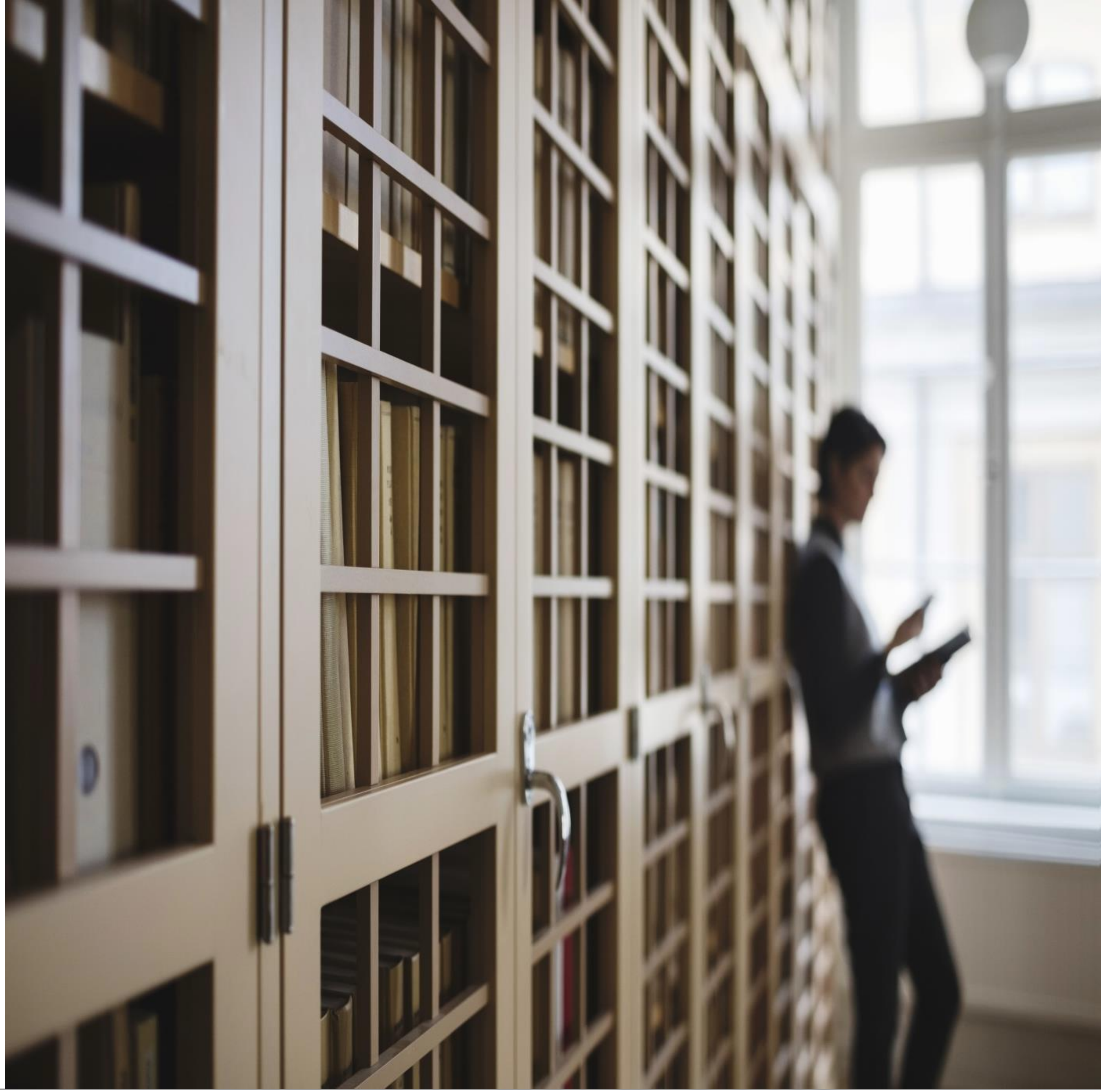


3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	13	No	No	No
Governance	17	No	No	No
Improving economy, efficiency and effectiveness	21	No	No	No

3. Commentary on VFM arrangements



Financial Sustainability

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

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council's operating environment in 2021/22

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 Stockport. 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 has seen some significant movements over the past year. Overall, the Council's net assets have increased from £1,113m to £1,671m at 31 March 2023. The most significant changes in the balance sheet relate to the Council's share of the pension fund, being in a net asset position for 22/23 after previously being in a deficit position, and increases in the value of the Council's property, plant and equipment portfolio of £121.93m compared to the prior year. It is not unusual to see material movements in the net pension position and this is consistent with our experience at other local authorities. The change from a deficit to a surplus position is typical across the sector in 2022/23. The movements in property values are reflective of the Council's capital programme, and changes as a result of regular asset revaluations.

The Council's useable reserves have decreased from £182.5m at 31 March 2022 to £133.3m at 31 March 2023. A significant part of the decrease, accounting for £23.28m, is due to the Council utilising its Collection Fund Reserve to address the 2021/22 deficit created by the loss of business rates income due to the Covid-19 pandemic.

Excluding the Collection Fund Reserve, the Council's schools and general fund earmarked reserves have decreased by £23m in year, to a total of £108.77m. The movement includes £4.059m approved use of reserves to support the Council's budget for 2022/23. These reserves provide some mitigation against future financial challenges. The movements in earmarked reserves are consistent with the reserves policy set by the Council in year. The Council's reserves policy identifies the purpose of each reserve, for example whether the reserve is linked to the Council's strategic priorities or to support budget resilience. The policy also sets out the approval process for drawing down reserves. The approval process is determined by the type of reserve and involves officers of sufficient seniority in the decision to draw down the reserve.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

The Council's financial planning and monitoring arrangements

The Stockport Council Plan 2022/23, approved at the Full Council meeting in February 2022, sets a framework for delivering the Council's desired outcomes, and informs decision making in terms of the Council's transformation programme and resulting efficiencies. As well as delivering outcomes, the transformation programme is linked to the delivery of the Council's Medium Term Financial Plan (MTFP) and the delivery of services within the resources available.

In February 2022, the Council set a balanced budget for 2022/23, with a total net expenditure requirement of £281m. The budget set by the Council included a Council Tax increase of 3.5% (including a 1% increase to the Adult Social Care Precept and 1.5% deferred 2021/22 Adult Social Care Precept), which was below the maximum increase of 5%, balancing the financial pressures faced by the Council with the impact on local taxpayers. We have reviewed the Council's budget setting papers for 2022/23 and confirmed the budget is linked to the updated MTFP approved at the same meeting. It includes details of key underlying assumptions including levels of inflation and pay increases alongside known changes to levies charged in respect of waste, transport, police and fire services.

The Council's budget for 2022/23 is based on the 2021/22 Q2 forecast outturn, adjusted for agreed changes with services, savings proposals and contingency allocations. For 2022/23, the budget included £12.589m contingency relating to the financial impact of the Covid-19 pandemic. The budget is subject to approval by Cabinet and review by relevant scrutiny committees prior to final approval by Council. During the budget setting process members are kept fully up-to-date on developments in local government finance, and we have seen evidence of officers proactively engaging members in the process. Examples of this include detailed papers explaining the impact of the Local Government Finance Settlements on the Council's budget and MTFP. Regular reviews of the Council's MTFP ensure this remains up-to-date and robust.

During the year the Council reported its financial position to Cabinet four times, in its Corporate Performance & Resources Updates. We have reviewed a sample of the reports presented for 2022/23. These contain appropriate detail of the significant variances to budget and provide an update on the delivery against forecast outturn. They also contain appropriate information on the delivery of the approved capital programme, including explanations for both over and under spends against the budget profile.

The Corporate Performance and Resources Update is supported by detailed Portfolio Performance and Resources reports for each of the Council's Cabinet Portfolios. These provide further and more granular detail on the financial position of each portfolio and are reviewed by relevant scrutiny committees. We selected a sample of these reports to review and confirmed the detail included was sufficient to allow for effective discussion and challenge of the Portfolio's performance. The reports included detail on the reserves held by the portfolio, progress against capital schemes and achievement of savings, in addition to the financial commentary of performance against budget.

As in previous years, officers have worked to ensure financial information is available on a timely basis. The Council's finance officers were able to produce a high quality draft Statement of Accounts.

The Council reported its revenue outturn position for the 2022/23 year as an overall Deficit of £0.267m. The reported surplus followed an allocation of £6.94m from the Council's Covid-19 Financial Scarring Impact contingency to cover the additional costs, such as demand-led pressures in children's services, or income reductions such as reduced rental income across the Council's investment portfolio.

The revenue outturn position also highlights the continued pressure on the dedicated school grants (DSG) budget with shows a deficit of £5.667m for 2022/23 meaning the cumulative deficit position on DSG is at £11.253m. The deficit is driven by external demand pressures particularly for high needs and SEN placements. The Council has taken proactive steps to lower the deficit including taking part in the Department for Education (DfE) delivering better value (DbV) support program. The anticipated opening of the Lisburne school and the Pear Tree Special School (DfE delivered) will help alleviate some of the demand pressures in the medium term. The pressures that the Council face are not unique to Stockport MBC and follows similar trends seen at other Local Authorities. The DSG override mechanism has been extended to 31st March 2026 giving Councils time to address the underlying deficit and for the DfE to clarify possible funding arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Arrangements for the identification, management and monitoring of funding gaps and savings

The Council has developed an MTFP Strategy to frame the choices it needs to make about the services it delivers and how it delivers them. This strategy underpins the organisational delivery of the Council Plan and helps to ensure decision making gives consideration to the future shape of the Council and its ongoing financial sustainability.

A key part of the MTFP is to highlight the budget issues that need to be addressed by the Council in each of the years covered. This includes assumptions to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. It also assesses the adequacy of reserves and provisions held for past events which may impact on the Council's resources.

As part of the budget process, the Council explicitly identifies its savings gap for the following year. Following the summer MTFP review, savings proposals are developed by the officers responsible for their delivery. Saving proposals are consulted on (where relevant) and scrutinised by relevant Scrutiny Committees prior to approval by Cabinet. Through our review of the budget setting process we selected a sample of savings proposals and confirmed these had been subject to the appropriate consultation and scrutiny process prior to approval by Cabinet.

As part of the MTFP update in September 2022, the savings gap identified for 2023/24 and 2024/25 were £16.953m, and £33.329m respectively. This formed the starting position for the budget setting process. During the course of the budget setting process, the Council updated the assumptions underpinning the MTFP. These revisions included identified savings to date, additional demand pressures and the outcome of the local government financial settlement. This reduced the savings requirement for 2023/24 to £4.3m, rising to £27.4m in 2025/26. The Council has a strong track record of delivery against savings programmes to bridge budget gaps in recent years.

Arrangements and approach to 2023/24 financial planning

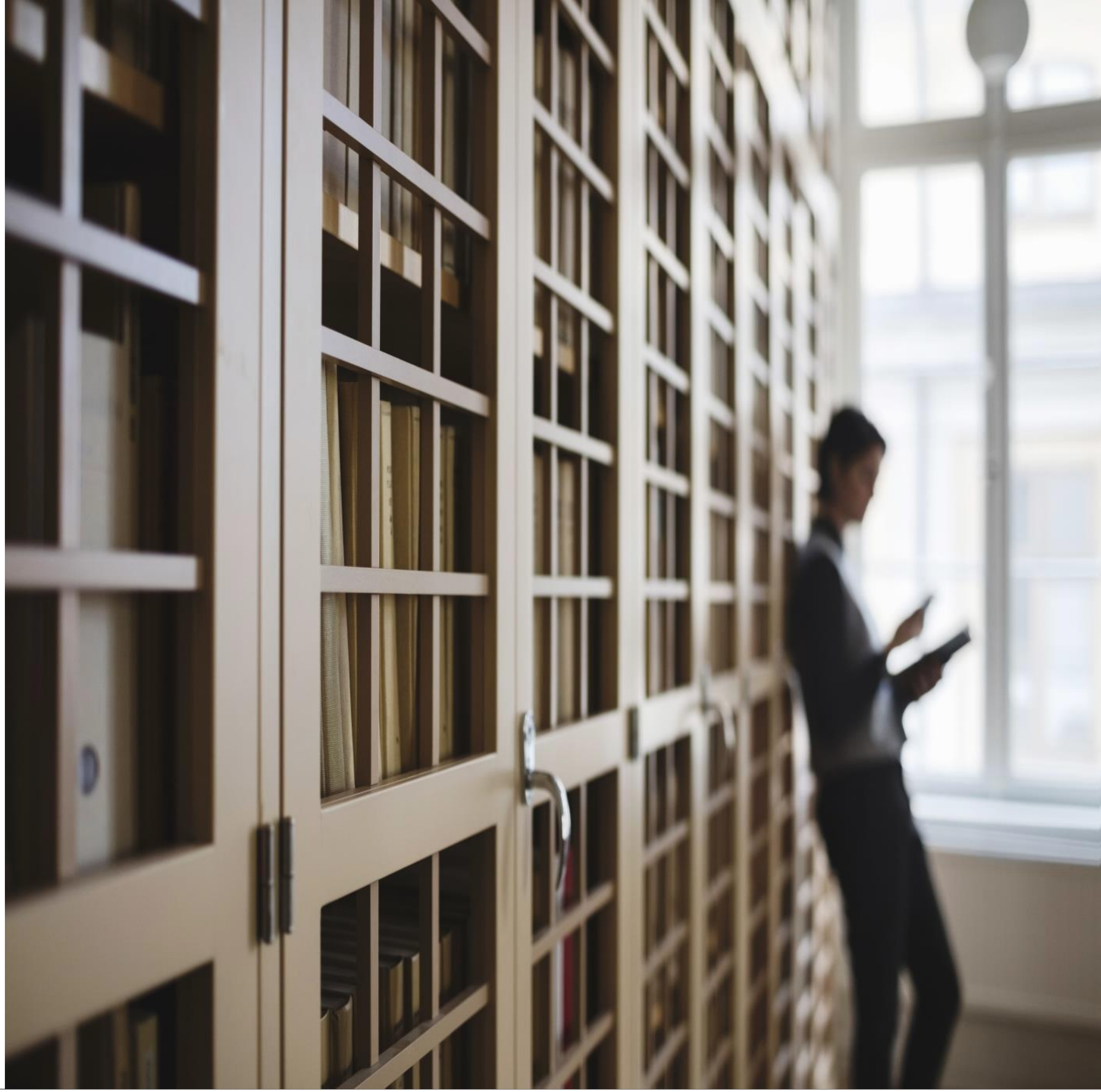
The arrangements for the 2023/24 budget setting process have largely followed the arrangements in place for 2022/23.

The budget for 2023/24 was approved at the February 2023 Council meeting, with a total net expenditure requirement of £310.406m. As reported above, the Council's MTFP identified an initial savings gap of £16.953m for 2023/24. Using the methodology described above, the Council was able to close this gap and to set a balanced budget for 2023/24. The budget gap was eliminated through a combination of MTFP assumption updates, an increase in Council tax of 3.99% (including the adult social care precept), Cabinet's approved savings programmes of £7.302m, and appropriations from reserves of £0.884m. We have reviewed the 2023/24 budget papers and confirmed the budget assumptions are sensible, realistic and properly applied based on the circumstances at the time the budget was set.

The quarter one forecast outturn for 2023/24 was a deficit of £3.750m as the Council continued to deal with inflationary pressures and additional demand particularly for placements for Children Looked After. The Council was clear about the adverse risk attached to it's forecasts, and the likelihood of the deficit increasing as the year progresses due to the continued demand pressure and pricing . The Council will continue to monitor the financial situation and identify mitigations where available to bring down costs in line with budget. The Council has a strong history of identifying mitigations. The 2023/24 financial year will be considered in more detail as part of our 2023/24 Auditor's Annual Report for the 2023/24 year ended.

Notwithstanding the financial challenges faced by the Council and wider local government sector, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. Commentary on VFM arrangements



Governance

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management, decision making and monitoring arrangements

The Council has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. As part of the Council's governance framework, the Audit Committee is responsible for ensuring that risk management arrangements are in place and are regularly reviewed to ensure they are working effectively.

Decision making is supported by risk management arrangements. The Corporate Governance Group monitors the development and maintenance of a Corporate Risk Register and the Corporate Leadership Team receive regular in-year updates on the management of risks within the Corporate Risk Register.

The corporate risk register provides the Council's senior leadership team with oversight of the key risks faced by the organisation. Regular updates to it are taken to the Audit Committee, allowing for member scrutiny and challenge of the risk assessment process. We have reviewed the Council's Corporate Risk Register and confirmed the assessment covers the areas we would expect, and the risks identified are assigned to appropriate risk owners and are linked to the Council's corporate priorities.

In order to provide assurance about the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council has a team of internal auditors, led by the Head of Internal Audit, Risk and Insurance. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. The 2022/23 Internal Audit plan was approved by the Audit Committee in March 2022 ahead of the start of the financial year.

The audit plan is based on an assessment of risks the Council faces and is determined 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 commissioned by officers and Members of the Council where relevant 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.

Internal Audit progress reports are presented to each Audit Committee meeting, including details of audit reports completed since the last update, along with a summary of recommendations raised. 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 Internal Audit provides an opinion based on the work completed during the year. For 2022/23, the overall opinion was as follows:

On the basis of our programme of work for the year, I can provide moderate assurance overall that there is a generally sound system of internal control, adequately designed to meet the Council's objectives, and controls are generally being applied consistently. However, some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk.

This opinion informed, and was appropriately reflected in the Council's Annual Governance Statement.

Through the Annual Governance Statement, the Council has developed an action plan to address governance priorities for the year ahead. The 2022/23 Annual Governance Statement reported on progress made in addressing the 2021/22 priorities, and identified four priorities for 2023/24 relating to transformation, achievement of the MTFP, engaging with the newly established Integrated Care Board as part of Health and Social Care reforms and the Total Local Company (TLC) transformation programme. Throughout the year the Audit Committee receives regular progress reports on delivery of this action plan, providing Members with assurance that the Council is on track with delivery of the plan.

The Council has an established governance structure in place which is set out within its Annual Governance Statement. This is supported by the Council's Constitution, which includes sections on Members and Officers Codes of Conduct, and the Corporate Governance Code.

The Code of Corporate Governance sets out the key principles which the Council is committed to and which is the framework for the Council to conduct its business. It allocates to key officers roles and responsibilities in respect of the corporate governance themes. In doing this, the framework sets out clearly the lines of accountability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Arrangements for budget setting and budgetary control

The Council has an approved set of budget principles which is used during the budget setting process. The Council's annual budget setting process begins with the retesting of the MTFP forecasts and assumptions to ensure the Council's forecast saving requirement is robust to inform decision making. In addition, available one-off resources are identified to support the balancing of the budget and/or one-off investments.

Based on the updated MTFP position, saving proposals and/or additional resources (i.e. income generation) are identified by services to support the balancing of the budget. Proposals are consulted on and scrutinised by relevant Scrutiny Committees prior to Cabinet approval for inclusion in the budget as part of balancing the budget. Proposals are informed by and aligned to the Council Plan and MTFP Strategy. Government announcements linked to the Council's future funding are a key part of the process. This includes Government Spending Reviews, national budget announcements and Local Government Finance Settlement announcements. In addition, Cabinet decide on an appropriate level of Council Tax increase taking all of the above into account as well as the impact this has on residents to support the balancing of the Council's budget. We have reviewed the budget assumptions which are appropriate and are consistently applied.

Budget monitoring is the responsibility of budget managers with the support of the Finance Service. Each budget has a named budget manager and responsibilities are clear. Financial reports are produced on a regular basis and meetings are held to discuss progress against the financial forecasts. Significant variances against budget are investigated and directors are required to identify and agree the corrective actions to be taken here the individual budgets are at risk. Directors are also required to separately monitor the implementation of approved savings plans and to advise of any slippage or variation. We have reviewed a sample of the finance reports which have been prepared throughout the 2022/23 year which evidence that an appropriate level of detail is included to keep directors, the Senior Leadership Team and members informed of any actual of potential overspends, including detail on how these areas are being managed.

In addition to the above the Council's Section 151 Officer undertakes regular review of the Council's Reserves Policy. This ensures one-off resources are aligned to the Council's corporate and strategic objectives, and provides the Council with the financial resilience to offset the impact of unexpected event. In 2022/23 a key focus of the reserves policy was to mitigate the financial impact of the Covid-19 pandemic and inflationary pressures, and support the resilience of the Council's MTFP and transformation. We have reviewed the Council's reserves policy and confirmed it is based on appropriate assumptions. The Council's 2023/24 Reserves Policy was taken through the governance process ahead of Cabinet approval. Our review of the policy confirms this takes account of the current financial challenges faced by the Council. The updated policy looks to realign reserves to support resilience in the Council's MTFP and support strategic priorities and transformation.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The work of other regulators

We reviewed the regulatory reports issued in respect of the Council, including by OFSTED and the Care Quality Commission (CQC).

The most recent full inspection of Children's Services by OFSTED was in 2022. The service was assessed as "Good" across all judgement areas. The report confirms the strong quality of practice and services was maintained despite the high levels of Covid-19 and the increased demand for services. The report confirmed areas of improvement identified in the previous inspection had largely been addressed. The report identified two areas of improvement, including management oversight in relation to visits to children, and the quality of personal education plans for children in care.

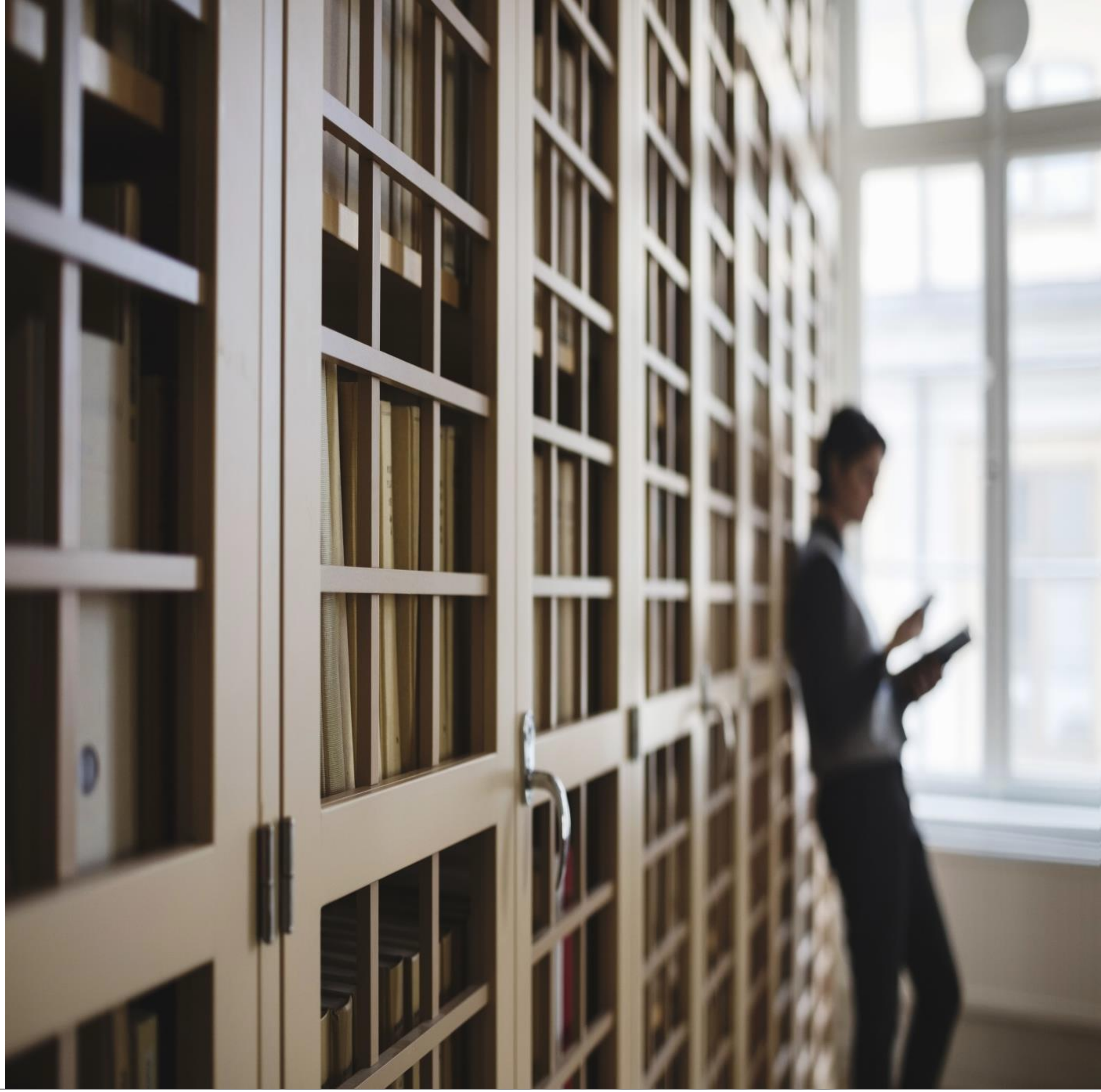
In November 2022 OFSTED undertook a joint area SEND revisit in Stockport. This confirmed the area had made sufficient progress in addressing four of the five areas of significant weakness in the original inspection.

During the year the Council invited peers from the Local Government Association (LGA) to take part in a Corporate Peer Challenge. The findings of the review were published in February 2023 and highlighted positives such as delivery of high performing services, strong financial management arrangements and effective working relationships between councillors and officers.

The report also made some recommendations for improvement particularly around further strengthening neighbourhood working, the way the Council works with partners, and building the Council's brand further. In response to the recommendations the Council has developed an action plan which is being delivered over 2023/24. The findings and recommendations from the review have fed into the development of the Council Plan for 2023/24.

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

3. Commentary on 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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

At the start of the financial year each Cabinet Member signs up to their Portfolio Performance and Resources Agreement, which sets out key performance measures for the Portfolio. The performance measures identified for each area are driven by the Council Plan, and, for 2022/23 reflected the continued impact of the Covid-19 pandemic on the Council's service provision. We have reviewed a sample of Portfolio Performance and Resources Agreements and confirmed these translate the vision for the portfolio into a delivery plan based around a number of key priorities. The vision for each Portfolio considers the wider policy context the Council operates within, including responding to and recovery from the Covid-19 pandemic and working with other organisations across Greater Manchester. Against each priority, the agreements include a number of key performance indicators which demonstrate the delivery of the Council Plan. The agreements are linked to the Council's budget, setting out the revenue cash limit, agreed savings schemes, reserve levels and the capital plan the Portfolio is responsible for. Combining financial and non-financial measures in these agreements enables greater buy-in to the budgeting process, and provides an effective framework of holding Portfolios to account in terms of service delivery.

Each Portfolio Holder reports on the progress in delivering these priorities and outcomes during the financial year as part of quarterly Portfolio Performance and Resources Update Reports. The reports are scrutinised by relevant Scrutiny Committees during the financial year. Each report contains an overall narrative on the Portfolio's progress in delivering its agreed priorities. The reports also contain a performance dashboard, providing an " at-a-glance" view of the Portfolio's achievement against its key performance indicators. Within the dashboard, each performance indictor has a RAG rating to show whether current performance is meeting the target, exceeding it or is behind target. The dashboard also shows performance against the target over time and includes a commentary on the status of each performance indicator. These dashboards are updated on a regular basis, and are available in an interactive format online. We have reviewed a sample of the dashboard reports and are satisfied these contain adequate detail to support performance management.

We have reviewed the minutes of relevant scrutiny committees. These demonstrate a good level of discussion and challenge arising from the update reports provided, indicating the reports to be effective in enabling appropriate levels of scrutiny by Members.

Partnerships and Commissioning

The Council is open to considering all options to deliver services. This means it commissions from other organisations where it is appropriate, and where it can achieve the same or better outcomes at reduced cost. The Council actively seeks to commission jointly with other public service agencies where possible.

The Council has a strong history of working with partners in the healthcare sector to develop integrated commissioning plans for adults, children and prevention and wellbeing services. This is intended to improve the effectiveness of these services and to create efficiencies.

The Council was part of a pooled budget arrangement, with Stockport Clinical Commissioning Group and worked as part of the wider Greater Manchester health and care system to provide effective and joined up services for local people. Following the change to NHS structures and the move to a Greater Manchester Integrated Care Board, the Council has continued to work constructively with the wider "system". In doing so, the Council has engaged positively to support the development of the new integrated care system, and the Council's Chief Executive has been appointed as the Place-Based Lead for the Borough. Governance arrangements for the new system continue to evolve, with the establishment of the Stockport Locality Board, chaired by the Leader of the Council, to focus on the One Health and Care Plan, and the establishment of the Stockport Provider Partnership to strengthen integrated partnership working across the Borough. Through these arrangements the Council works closely with healthcare providers including Stockport NHS Foundation Trust.

The Council actively seeks partnerships with other local authorities in procurement activities and awards joint contracts where appropriate. The Council is a member of STAR Procurement which is a shared procurement service with Rochdale, Tameside and Trafford Councils. STAR report back to the Council on a regular basis and we have seen evidence that this approach is delivering financial savings and social value requirements. Other councils are now joining STAR which reflects positively on the work it does.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

The Council works closely with other bodies to deliver its strategic priorities. In 2019, Greater Manchester Combined Authority (GMCA) agreed to create the Stockport Mayoral Development Corporation (MDC) to lead the regeneration of Town Centre West. Although initial progress was slower than intended, because of the impact of pandemic, the MDC is bringing forward schemes which are now being delivered in line with the agreed vision and strategy. Overall, this is an ambitious programme intended to drive forward wide-ranging redevelopment in the town. It includes improvements in the provision of housing, employment space, public transport, public realm and greenspace. It also supports the redevelopment and repurposing of some old buildings to improve the overall environment. The delivery of the programme by the MDC reflects collaborative working between the Council, GMCA, Homes England, Transport for Greater Manchester, and the private sector.

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

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 1 December 2023.

4. 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 July 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£97,119	£97,119
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£19,940	£19,940
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£2,500	£2,500
Additional work in respect of the prior period adjustment on the valuation of the investment in Manchester Airport Group	£2,000	-
Additional work in respect of the impact of the triennial revaluation of the pension fund on the Council's net defined liability	£5,000	-
Additional work in respect of infrastructure assets and the application of the statutory override	£10,000	-
Implementation of new ISA315 (revised)		£15,000
Additional work in relation to the net pension asset ceiling		£7,500
Additional Value for Money work arising from the change in the Code of Audit Practice	£12,500	£12,499
Total fees	**£149,059**	**£154,558**

A

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.

Management override of controls

Description of the risk

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 amounts included in the financial statements;
- Consideration of any 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 completed our procedures as planned. There are no matters to bring to the Committee’s attention in respect of our work on management override of controls.

A. Further information on our audit of the financial statements

Net defined benefit liability valuation (Council and Group)

Description of the risk

The Council's single entity and group accounts contain material assets relating to the local government pension scheme administered by the Greater Manchester Pension Fund (GMPF). In 2022/23, the valuation has identified the Council has a net pension asset for the first time. There are specific accounting requirements which limit the value of the net asset to the 'asset ceiling'. The Council and its subsidiaries rely upon an actuary, Hymans Robertson to provide an annual valuation of these assets in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area

How we addressed this risk

Our procedures included:

- assessing the skill, competence and experience of the Fund's actuary, Hymans Robertson including a review of the actuary by our actuarial expert PWC;
- challenging the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation;
- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by GMPF 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;
- carrying out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation;
- corresponding with the GMPF auditor to gain assurance on their audit of the fund; and
- obtaining appropriate assurance that the asset ceiling has been calculated in accordance with IFRIC 14, including reviewing the appropriateness of the assumptions and inputs used in the asset ceiling calculation.

Audit conclusion

Our detailed testing has identified four errors.

The first relates to Stockport Council's allocated share of an error identified by the Greater Manchester Pension Fund (GMPF) auditor as part of their testing of pension assets. The impact of this error is not material. Further detail on this error is outlined in the section below.

The other three errors relate to revised pension asset ceiling calculations. The Council received updated calculations from the actuary based on an indefinite life for the Council and its group entities Stockport Homes limited and Totally Local Company. The updated calculations for the Council and Totally Local Company have led to material adjustments in the financial statements. The impact of the updated calculation for Stockport Homes limited is not material therefore management have chosen not to amend the financial statements.

A. Further information on our audit of the financial statements

Valuation of property, plant and equipment (Council and Group)

Description of the risk

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 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 which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty.

The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle. 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 their materially correct current value. In addition, as the valuations are undertaken through the year there is a risk that the fair value of the assets is materially different at the year end.

How we addressed this risk

Our audit procedures included:

- assessing the skill, competence and experience of the Council's internal and external valuers;
- reviewing the instructions issued to the internal and external valuers by management to ensure they comply with the Code requirements;
- considering whether the overall revaluation methodology used by the Council's valuers is in line with industry practice, social housing statutory guidance, the CIPFA Code of Practice and the Council's accounting policies;
- understanding the process followed by management to seek assurance that any land and buildings assets not revalued at 31 March 2023 are not materially misstated;
- assessing 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 assessing the appropriateness of the social housing factor applied to the valuation of the Council Dwellings;
- testing the consolidation adjustment made to the valuation of Stockport Homes Ltd's properties to align the valuation to the Council's accounting policies;
- testing the valuation on a sample of properties; and
- testing a sample of items of capital expenditure in 2022/23 to confirm that additions are appropriately valued in the financial statements.

Audit conclusion

Our detailed testing identified a number of errors in the valuations used in the accounts however the net impact of these errors are not material. Further detail is provided in the section below. There are no other matters to bring to the committee's attention.

A. Further information on our audit of the financial statements

Valuation of investment properties

Description of the risk

The CIPFA Code requires that investment properties are subject to revaluation annually, their year-end carrying value should reflect the current value at that date i.e. investment property shall be measured at fair value as at the balance sheet date.

The valuation of investment properties 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 which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty.

How we addressed this risk

Our audit procedures included:

- assessing the skill, competence and experience of the Council's internal and external valuers;
- reviewing the instructions issued to the internal and external valuers by management to ensure they comply with the Code requirements;
- considering whether the overall revaluation methodology used by the Council's valuers is in line with industry practice, and the CIPFA Code of Practice and the Council's accounting policies;
- assessing the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;
- testing the valuation on a sample of properties; and
- testing a sample of items of capital expenditure in 2022/23 to confirm that the additions are appropriately valued in the financial statements.

Audit conclusion

Our audit testing has identified one error that we are reporting in relation to investment property valuations, as detailed in the section below, however the impact of this is not material. There are no other matters to bring to the committee's attention.

A. Further information on our audit of the financial statements

Key areas of management judgement

Valuation of shareholding in Manchester Airport (Council)	**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 2023. 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 Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team. 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
	Audit conclusion We completed our procedures as planned. There are no matters to bring to the Committee's attention in respect of our work on the valuation of the shareholding in Manchester Airport.

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements- Council

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Debtors (prepayments)			2,424	
	Cr: Expenditure		2,424		
	During our testing of expenditure we identified one invoice for £40.8k which related to 2023/24 but was recognised in 22/23. Applying our audit methodology we extrapolated this £40.8k error, and if the error was representative of the whole population, the prepayments and Cost of Services expenditure would both be misstated by £2,424k. We are satisfied this is not material. As the actual error is only £40.8k the Council's finance team have decided not to amend the statement of accounts.				
2	Dr: Financing and Investment Income and Expenditure	2,371			
	Cr: Investment Property				2,371
	During our testing of investment property valuations we identified a number of errors in our samples, which extrapolate to an error of £2,371k. The main error, which was identified by the Council, relates to one asset valuation which was overstated by £1,970k. The remaining errors relate to minor recalculation differences.				
3	Dr: Revaluation Reserve			4,122	
	Cr: Property, Plant and Equipment				4,122
	During our testing of property, plant and equipment valuation we identified a number of errors in our samples, which extrapolate to an error of £4,122k. The main reason behind these errors is the assessment of the modern equivalent asset (MEA) area used in school valuations being overstated.				

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements- Council

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: Property, Plant and Equipment			6,596	
	Cr: Revaluation Reserve				6,596
	Estimated error as result of posting full year additions and depreciation after processing the valuations at 01/01/2023.				
5	Dr: Net pension asset			3,043	
	Cr: Pension reserves				3,043
	Stockport Council's allocated share of the error identified by the Greater Manchester Pension Fund (GMPF) auditor as part of testing pension assets.				
6	Dr: Expenditure	1,961			
	Cr: Property, Plant and Equipment				1,961
	In relation to the identified impairment of Bramhall High School due to the identification of RAAC in the roof structure.				
	Total unadjusted misstatements	**4,332**	**2,424**	**16,185**	**18,093**
	Net unadjusted misstatements	**1,908**		**1,908**	

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements- Group

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net pension asset			645	
	Cr: Pension reserves				645
	Being adjustment to correct the accounts to reflect the updated asset ceiling calculation for Stockport Homes Limited.				
	Total unadjusted misstatements	**-**	**-**	**645**	**645**

A. Further information on our audit of the financial statements

Internal control observations

Description of deficiency

Our sample testing of property, plant and equipment and investment property valuations identified a number of errors, including in relation to the size of the Modern Equivalent Asset assumptions. These extrapolated to an immaterial error, as set out in section 6. We have held a debrief with the finance team to explain the errors and the impact on the valuations.

Potential effects

Incorrect assumptions and errors in the valuations process may lead to a misstatement of asset values in the financial statements.

Recommendation

Management should work with the valuers to ensure the errors identified are corrected and not repeated in future valuations.

Management response

Discussions have been held between management and the audit team, and management are putting in place processes with the valuer to ensure that this issues do not re-emerge in the future.

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency

Our sample testing of school bank accounts identified one instance where the bank reconciliation was performed on 29 March 2021, rather than 31 March 2021. The transactions for the final two days were included in the April bank reconciliation, rather than the March bank reconciliation.

Potential effects

Performing bank reconciliations before the year end can lead to transactions being missed from the Council's year-end financial position.

In response to our finding, the Council's finance team completed a check of all school bank reconciliations and identified a further 25 instances where the bank reconciliation was completed as at the wrong date. The financial impact of the identified timing differences was trivial, and as such the Council's accounts have not been amended.

Recommendation

Reminders should be sent to all school finance teams to complete the year-end bank reconciliation as at 31 March 2022.

The Council finance team should complete a check of the bank reconciliation date for each school as part of the year-end closedown process.

2022/23 update

This recommendation has not been fully addressed in 2022/23. Furthers reminders were sent to schools to ensure that bank reconciliations were completed at the year-end date. However, our sample testing of school bank accounts in 2022/23 still identified one instance where the bank reconciliation was performed on 29 March 2022, rather than 31 March 2023. The financial impact of this timing difference was trivial therefore the Council accounts were not amended.

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency

A small number of assets have not been revalued within the five years required by the CIPFA Code. In addition, the Council holds a small number of land and building assets at historic cost. The value of these assets is trivial . However, this represents non-compliance with the requirements of the Code.

Potential effects

Conducting valuations of land and building assets on a regular basis ensures the amounts held on the Council's balance sheet are up-to-date.

Recommendation

The identified assets should be included in the 2022/23 valuations cycle to bring them up to date.

2022/23 update

This recommendation has been addressed in 2022/23. Our work on property, plant and equipment confirmed that the Council had revalued all assets within the five years required by the CIPFA code and no assets were identified as being held at historic cost.

Karen Murray

Mazars

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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