

Audit Progress Report

Stockport Metropolitan Borough Council

July 2024

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Purpose of this report

This report provides the Audit Committee with information about progress in delivering our responsibilities as external auditors for the Council.

Prior to the calling of the general election on 4 July 2024, the Department of Levelling Up, Housing and Communities ('DLUHC') had consulted on proposed arrangements which would implement a 30 September 2024 backstop date for all audits for the 31 March 2023 financial year and earlier, where these are not yet complete. Similar dates were being considered to bring the backstop date forward each year for the next five years. These considerations are now on hold until after the election. We had agreed with management to start the 2023/24 audit by the end of September 2024.

The Council published its 2023/24 draft financial statements on 17 June 2024. Although we haven't completed our audit planning to produce our Audit Strategy Memorandum, we have provided the Committee with an indication of our materiality and significant audit risks we are likely to report. We have summarised these on pages 5 to 10 of this report.

Forvis Mazars

We are delighted to introduce you to Forvis Mazars: our new global Top 10 network. Launching on 1 June 2024, Forvis Mazars has been designed for and around our clients. As a network of just two firms, and operating in over 100 countries, Forvis Mazars has been built with the scale, capacity, and expertise to support our clients' needs worldwide.

There are no changes to your engagement team, and no changes to the audit approach your team adopts. Our branding and our email addresses will be updated to reflect the new network, but otherwise we do not expect any changes of substance to affect our engagement with the Council.

Further information on Forvis Mazars can be found here: [Forvis Mazars Accountants - Audit, Tax and Advisory Services - United Kingdom](#)

Materiality and misstatements

Materiality

For the group and single-entity financial statements, we consider that gross expenditure at the surplus/ deficit on provision of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross expenditure at the surplus/ deficit on provision of services level for the group financial statements, and a materiality threshold of 2% of gross expenditure at the surplus/ deficit on provision of services level for the Council's single entity statements.

As set out in the tables alongside, based on the draft 2023/24 financial statements we anticipate our Group overall materiality for the year ended 31 March 2024 to be in the region of £20.7m (£19.85m in the prior year), and performance materiality to be in the region of £16.56m (£15.88m in the prior year).

For the single entity statements, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £19.9m (£18.95m in the prior year), and performance materiality to be in the region of £15.92m (£15.16m in the prior year).

We will confirm our materiality level in our Audit Strategy Memorandum to be issued to the next Audit Committee meeting and will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

Group financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£20,700	£19,850
Performance materiality	£16,560	£15,880
Clearly trivial	£621	£595

Council's single-entity financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£19,900	£18,950
Performance materiality	£15,920	£15,160
Clearly trivial	£597	£569

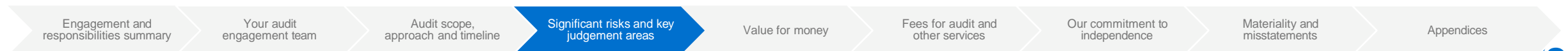
Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls (Council only) This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of defined benefit asset/liability (Council and Group)</p> <p>The Council's single entity and group accounts contain material liabilities relating to the local government pension scheme administered by the Greater Manchester Pension Fund (GMPF), which had its last triennial valuation completed as at 31 March 2022.</p> <p>The Council and its subsidiaries rely upon an actuary, Hymans Robertson to provide an annual valuation of these liabilities 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.</p>	○	●	●	<p>We will evaluate the design and implementation of any controls which mitigate the risk. In addition our procedures will include:</p> <ul style="list-style-type: none"> • corresponding with the GMPF auditor to gain assurance on their audit of the fund; • 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 will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • 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. • 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.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

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Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment (Council and Group)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.</p> <p>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.</p> <p>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.</p>	○	●	●	<p>We will evaluate the design and implementation of any controls which mitigate the risk. In addition, our procedures will include:</p> <ul style="list-style-type: none"> • 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; • consider 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 2024 are not materially misstated; • assess 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 assess the appropriateness of the social housing factor applied to the valuation of the Council Dwellings; • test 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 sample of properties; • test a sample of items of capital expenditure in 2023/24 to confirm that the additions are appropriately valued in the financial statements.

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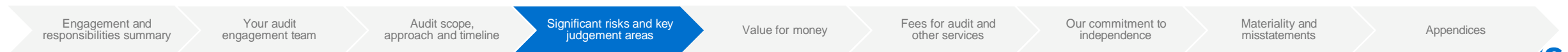
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Significant risks

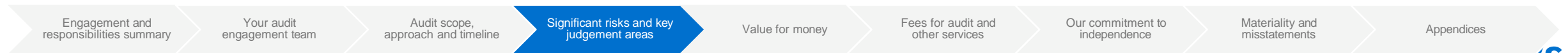
	Description	Fraud	Error	Judgement	Planned response
4	<p>Valuation of investment properties (Council)</p> <p>The CIPFA Code requires that investment properties are subject to revaluation, their year end carrying value should reflect the current value at that date i.e. investment property shall be measured at fair value as at the balance sheet date.</p> <p>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.</p>	○	●	●	<p>We will evaluate the design and implementation of any controls which mitigate the risk. In addition our procedures will include:</p> <ul style="list-style-type: none"> • assessing the skill, competence and experience of the Council's external valuers; • reviewing the instructions issued to the external valuers by management to ensure they comply with the Code requirements; • consider whether the overall revaluation methodology used by the Council's valuers is in line with industry practice, • assess 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. • test a sample of items of capital expenditure in 2023/24 to confirm that the additions are appropriately valued in the financial statements.



Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
5	<p>Valuation of shareholding in Manchester Airport (Council)</p> <p>The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2024. 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</p>	○	●	●	<p>Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team.</p> <p>The Mazars in-house valuation team will:</p> <ul style="list-style-type: none"> • review the methodology and key assumptions used by management’s expert, • consider the appropriateness of the methodology and the reasonableness of the assumptions used.



02

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy ('CIPFA')		
1	CIPFA Bulletins	CIPFA have issued two Bulletins to provide further guidance on the financial reporting requirements.
2	Code of Practice on Local Authority Accounting in the UK 2024/25	Code of Practice for 2024/25 financial statements
3	IFRS16 Leases: A Guide for Local Authority Practitioners 2023 Edition	Guidance for Local Authorities in implementing IFRS16, lease accounting
National Audit Office ('NAO')		
4	NAO insight: Digital transformation in government: a guide for senior leaders and audit and risk committees	The NAO has published a guide for senior leaders and audit and risk committees on Digital transformation in government. The guide can support those tasked with overseeing large-scale digital change to understand the core issues and pitfalls to avoid.
5	NAO report: Non-executive appointments	Non-executive directors ('NEDs') make an important contribution to the running of government. However, the government must do more to ensure the best quality of candidates are recruited.
6	Whole of Government Accounts 2021-22	The NAO has completed its audit of the Whole of Government Accounts 2021-22
7	NAO report: Use of artificial intelligence in government	The NAO has published a report considering how effectively the government has set itself up to maximise the opportunities and mitigate the risks of Artificial Intelligence (AI) in providing public services
Department for Levelling Up, Housing and Communities ('DLUHC')		
8	Addressing the local audit backlog in England: Consultation	This consultation seeks views on amending the Accounts and Audit Regulations 2015 as part of a package of cross-system measures to clear the backlog and put the system on a sustainable footing. The consultation closed on 7 March 2024.
Other		
9	Forvis Mazars – Preparing for the Procurement Act 2023	The Procurement Act 2023 is set to transform the procurement procedures for public sector bodies. Our latest article provides an in-depth overview of the new Procurement Act.
10	Forvis Mazars – Understanding the new 'Failure to Prevent Fraud' Offence in a Public Sector context	The UK Government has recently announced a new corporate criminal offence – the 'failure to prevent fraud' offence – within the Economic Crime and Corporate Transparency Act 2023.
11	Office for Local Government (Oflog): consultation on draft Corporate Plan 2024 to 2027	Consultation on corporate plan for the new Office for Local Government

National publications

CIPFA

1. CIPFA Bulletins

Bulletins issued by CIPFA, with the assistance of CIPFA panels, provide practitioners with topical guidance on specific issues and accounting and reporting developments. CIPFA has issued the following Bulletin's in recent months:

CIPFA Bulletin 17 Closure of the 2023/24 Financial Statements

This bulletin covers the closure of accounts for the 2023/24 year and provides further guidance and clarification to complement the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2023/24 Code Guidance Notes.

Link: [CIPFA Bulletin 17 Closure of the 2023/24 Financial Statements](#)

CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement

CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement is intended to provided clarity to those authorities with at least one set of unaudited financial statements for prior years, and their external auditors, on the update of the annual governance statement ('AGS').

Link: [CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement](#)

National publications

CIPFA

2. Code of Practice on Local Authority Accounting in the UK 2024/25

CIPFA has published its 2024/25 Code of Practice. This 2024/25 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2024.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. The Code applies to local government organisations across the UK including local authorities, police bodies, fire services and other local public service bodies.

This edition of the Code introduces mandatory adoption of IFRS 16 Leases. Other amendments include:

- a suggestion that narrative reporting could reflect on the risk that a Section 114 notice might be issued
- recent changes to the IFRS treatment of sale and leaseback arrangements
- specifying the treatment on initial application of IFRS 16 where service concession arrangements provide for variable payments that depend on an index or rate.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202425-online>

3. IFRS16 Leases: A Guide for Local Authority Practitioners 2023 Edition

This publication provides guidance on IFRS 16 Leases for 2022/23, which is applicable to those authorities deciding to voluntarily implement the requirements of Appendix F of the Code (which includes the specifications applicable to those entities implementing IFRS 16 as of 1 April 2022). It will also be of interest to those intending to apply as of 1 April 2023 and those mandatorily implementing as of 1 April 2024.

This guidance on IFRS 16 provides comprehensive coverage of the proposed requirements for lessees. Although there have not been significant changes to the requirements for lessors, the guidance also includes extensive commentary on this area.

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-a-guide-for-local-authority-practitioners-2023-edition>

National publications

NAO

4. NAO insight: Digital transformation in government: a guide for senior leaders and audit and risk committees

The NAO has published a guide for senior leaders and audit and risk committees on Digital transformation in government. The guide can support those tasked with overseeing large-scale digital change to understand the core issues and pitfalls to avoid. The guide identifies seven areas where the more persistent obstacles stand in the way of successful digital transformation in government and have grouped them into three themes:

- constraints of the existing environment;
- under-estimating the scope of early work; and
- lack of skills and leadership.

[Digital transformation in government: a guide for senior leaders and audit and risk committees](#)

5. NAO report: Non-executive appointments

Non-executive directors ('NEDs') are crucial to the effective running of government. They are individuals who sit on governing boards of government departments and arm's-length bodies, including non-departmental public bodies and government companies, to provide external expertise. They provide strategic leadership, scrutinise performance, promote transparency and take a long-term perspective.

NEDs make an important contribution to the running of government, providing an independent perspective, expertise, and challenge where needed. However, the government must do more to ensure the best quality of candidates are recruited. This includes fixing the often long and drawn-out appointments and re-appointments process, which poses risks to the quality and diversity of boards, as well as to the governance of those organisations when vacancies are not filled.

[Non-executive appointments](#)

National publications

NAO

6. Whole of Government Accounts 2021-22

The NAO has completed its audit of the 2021-22 Whole of Government Accounts. The Whole of Government Accounts consolidates the accounts of central and local government and public corporations such as the Bank of England, to provide a picture of the UK's public finances.

<https://www.nao.org.uk/reports/whole-of-government-accounts-2021-22/>

7. NAO report: Use of artificial intelligence in government

The NAO has published a report considering how effectively the government has set itself up to maximise the opportunities and mitigate the risks of Artificial Intelligence (AI) in providing public services. The primary focus for this report is the role of the Cabinet Office and DSIT in supporting the adoption of AI in the public sector. Specifically, the report looks at:

- the government's strategy and governance for AI use in public services (Part One).
- how government bodies are using AI and how government understands the opportunities (Part Two).
- central government's plans for supporting the testing, piloting and scaling of AI; and progress in addressing barriers to AI adoption (Part Three).

<https://www.nao.org.uk/reports/use-of-artificial-intelligence-in-government/>

8. Addressing the local audit backlog in England: Consultation

The external auditing of local bodies is vital in supporting democratic accountability and providing assurance for local people and their elected representatives. The consultation sought views on amending the Accounts and Audit Regulations 2015 as part of a package of cross-system measures to clear the backlog and put the system on a sustainable footing. The draft statutory instrument covers the core elements of the proposed amendments to the Regulations. The Joint Statement, agreed with system partners, provides vital context and explains the cross-system proposals and how the various elements are intended to interact.

The consultation ran from 8 February 2024 to 7 March 2024. Documents relating to the consultation are still available for download at the link below, which is also the place where the outcome to the public feedback will be available.

[Addressing the local audit backlog in England: Consultation](#)

National publications

Other

9. Forvis Mazars – Preparing for the Procurement Act 2023

The Procurement Act 2023 is set to transform the procurement procedures for public sector bodies in the UK by:

- enhancing transparency in procurement processes, requiring greater disclosure of information about procurement opportunities;
- improving efficiency by introducing new measures such as electronic procurement platforms; and
- promoting fairness to ensure all suppliers have equal access to government contracts.

Our latest article provides an in-depth overview of the new Procurement Act, including when it will be implemented, key provisions and how public sector organisations can prepare.

[Preparing for the Procurement Act 2023](#)

10. Forvis Mazars – Understanding the new ‘Failure to Prevent Fraud’ Offence in a Public Sector context

The UK Government has recently announced a new corporate criminal offence – the ‘failure to prevent fraud’ offence – within the Economic Crime and Corporate Transparency Act 2023.

Fraud is currently the most common crime in the UK, and this new offence is designed to drive a cultural shift, encouraging organisations to improve their prevention procedures and reduce instances of fraud. It strengthens existing powers to fine and prosecute organisations for fraud committed by their employees and agents, closing loopholes that have allowed organisations to avoid prosecution in the past.

This new offence holds large organisations, both in the public and private sectors, accountable for fraudulent activities committed by their employees or agents.

[‘Failure to Prevent Fraud’ in the Public Sector](#)

National publications

Other

11. Office for Local Government (Oflog): consultation on draft Corporate Plan 2024 to 2027

Oflog consulted on its draft Corporate Plan 2024-2027. The consultation ran from 15 February 2024 to 14 March 2024. The Corporate Plan proposes how Oflog will deliver its strategic objectives set out in the remit letter from the Secretary of State for Levelling Up, Housing and Communities. Oflog will publish its final Corporate Plan later this year.

<https://www.gov.uk/government/consultations/office-for-local-government-oflog-consultation-on-draft-corporate-plan-2024-to-2027>

Contact

Forvis Mazars

Alastair Newall

Director

alastair.newall@mazars.co.uk

Joe Broom

Manager

joe.broom@mazars.co.uk

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