



# Audit Completion Report

Trafford Metropolitan Borough Council

Year ending 31 March 2020

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20 November 2020

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

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

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 5 February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.]

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

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0161 238 9248.

Yours faithfully

*Karen Murray*

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Trafford Metropolitan Borough Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Accounts and Audit Committee meeting on 26 November 2020.

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

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

- Management override of control
- Valuation of Property, Plant & Equipment;
- Valuation of Defined Benefit Pension Liability;
- Valuation of investment in Manchester Airport Holdings Limited.
- Accounting for Council's PFI arrangement
- Accounting for schools

## Status of our work

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

### Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. We have included an Emphasis of Matter paragraph in respect of the valuations of Council land and buildings and investment properties and its share of pension fund property assets. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

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

### Whole of Government Accounts (WGA)

The NAO's WGA Group Instructions regarding the audit work required and its timetable for audit reporting have been significantly delayed in 2019/20. Group instructions were issued on the 5 November 2020 so the timing of our review of your WGA submission is to be confirmed. We will report the results in our Annual Audit Letter.

### Wider powers

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

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money conclusion

Appendices

# 1. EXECUTIVE SUMMARY

## Status of our audit work

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

Audit area	Status	Description of outstanding matters
Property, Plant and Equipment (PPE) and Investment Property (IP) valuations	●	<p>We are finalising our review of a sample of asset valuations undertaken by the Council's valuer on PPE and IP. There is a risk that material errors may be identified as a result of this work. Our work on Assets Held for Sale also remains in progress.</p> <p>The declaration of material uncertainties in valuations by the Council's valuer caused by Covid19 requires us to include an emphasis of matter paragraph in the audit opinion. We provide more information on this matter at page 8.</p>
Pension Liability	●	<p>We are completing our work on the updated pensions liability and associated disclosures.</p> <p>The declaration of material uncertainties in valuations by the Greater Manchester Pension Fund's valuers caused by Covid19 will lead to an emphasis of matter paragraph in the audit opinion in respect of the Council's share of these assets. We provide more information on this matter at page 10.</p>
Cash & cash equivalents	●	We are awaiting receipt of a bank confirmation for two schools.
Post Balance Sheet Events Review	●	We will update our review of post balance sheet events disclosures up to the date of signing our audit report.
Review and closure procedures	●	<p>Completion of audit closure procedures, including:</p> <ul style="list-style-type: none"><li>• review of final Annual Governance Statement;</li><li>• review of the final version of the financial statements; and</li><li>• final manager and partner review.</li></ul>
Whole of Government Accounts	●	Due to the significant delays with the NAO Group Instructions for local authority audits in 2019/20, our work on the Council's WGA consolidation pack remains outstanding. Further details on this matter are provided on page 13.

### Status

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

## 2. AUDIT APPROACH

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

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £10.6m for the Group accounts and £10.5m for the Council financial statements, using a benchmark of 2% of gross expenditure at the Surplus/Deficit on Provision of Services level.

Our final assessment of materiality, based on the final financial statements and qualitative factors has been updated as set out in the table below. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee at 3% of overall materiality).

Materiality element	Group materiality	Council single-entity materiality
Overall materiality	£11,475,000	£11,320,000
Performance materiality	£9,180,000	£9,056,000
Trivial threshold for reporting to Audit Committee	£344,000	£339,000

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Group or the Council.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following item of account/disclosures:

Item of account/disclosure	Specific materiality
Officer remuneration bandings (Note 9)	£5,000 *

- Reflecting movement from one salary band to another

### Misstatements and internal control recommendations

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

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

## 2. EXECUTIVE SUMMARY (CONTINUED)

### Overview of our group audit approach

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

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Trafford Council (parent)	NAO Code audit	Mazars LLP	A full audit of the Council financial statements and consolidation process	None
Trafford CIC Ltd. (subsidiary)	Statutory audit	Mitchell Charlesworth LLP	Desktop group analytical procedures carried out by Mazars on the financial information prepared for group reporting purposes using component materiality	None
Trafford Bruntwood Ltd. (joint venture)	Statutory audit	Deloitte LLP	Desktop group analytical procedures carried out by Mazars on the financial information prepared for group reporting purposes using component materiality	None
Trafford Bruntwood (Stretford Mall) (joint venture)	Statutory audit	Deloitte LLP	Desktop group analytical procedures carried out by Mazars on the financial information prepared for group reporting purposes using component materiality	None
Trafford Bruntwood (Stamford Quarter) (joint venture)	Statutory audit	Deloitte LLP	Desktop group analytical procedures carried out by Mazars on the financial information prepared for group reporting purposes using component materiality	None

The Council has applied a consideration of materiality in determining which of its subsidiaries, associates and joint ventures to consolidate into its Group financial statements. The result of this consideration, as disclosed in Note G2 to the Group financial statements is that one Council interest is not consolidated: Trust Youth Trafford.

The Council's consideration of the material impact of these interests on its Group financial statements is in accordance with the applicable financial reporting framework.

## 2. SIGNIFICANT FINDINGS

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

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

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

#### Significant risk

#### Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

There are no significant matters arising from our work on the management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk Valuation of Property, Plant & Equipment

#### Description of the risk

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.

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.

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 fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.

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#### How we addressed this risk

We have:

- assessed the Council's valuer's qualifications, objectivity and independence to carry out such valuations;
- reviewed the valuation methodology used, including testing of the underlying data and assumptions;
- reviewed the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and considered the robustness of that approach in light of the valuation information reported by the Council's valuers;
- considered the movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.
- tested revaluations to ensure they are correctly reflected in the accounts
- tested additions to ensure correct accounting treatment

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#### Audit conclusion

As set out on page 4, the final elements of our work on the valuation of Property, Plant & Equipment are still to be completed and concluded.

Our testing of valuations is not yet complete due to difficulties in obtaining sufficient supporting evidence for the sample being tested. We are also awaiting responses from the valuer to queries arising from our sample testing that may result in errors in valuations being identified.

The Council's valuer has followed RICS guidance and as expected their valuation report concludes that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts. We expect, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report.

Our draft Auditor's Report at Appendix B includes a draft 'emphasis of matter' paragraph. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

### Description of the risk

#### Defined benefit liability valuation

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.

#### How we addressed this risk

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;
- Tested payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

In addition our work focused on two issues that emerged through 2020. In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was included in the Council's liability in 2019/20. The proposed remedy indicates that the actuarial estimate of the liability for 2019/20 was likely to be overstating the pension fund liability but not materially. A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. Although the impact of 'Goodwin' is still being clarified the Council's actuary have provided details of the impact on the Council's liability. In both issues, Management has engaged with the Council's actuary and we and Management have reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability. The Council obtained a revised report from the actuary that considered the impact of McCloud and Goodwin and has amended the pension accounting entries and disclosures in the Council's financial statements, as set out on page 18.

# 3. SIGNIFICANT FINDINGS (CONTINUED)

**Significant risk**

**Defined benefit liability valuation (continued)**

**Audit conclusion**

Our work on the valuation of the Council's Pension Liability is not yet complete. However, as highlighted above in relation to the Council's property valuations, the Pension Fund and its auditor have highlighted a "material valuation uncertainty" over the valuation of the Pension Fund's property holding. This is disclosed in the notes to the Council's Accounts and, in line with normal practice, we will include reference to this disclosure as an 'emphasis of matter' in our audit report. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

**Management judgement**

**Valuation of investment in Manchester Airport Holdings Limited**

**Description of the management judgement**

The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited (MAHL) at 31 March 2020. The valuation is determined under IFRS13 applying a consistent methodology to the previous year and applying key 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 included 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 have completed our procedures and there are no matters arising against the valuation of the Council's investment in MAHL.



### 3. SIGNIFICANT FINDINGS (CONTINUED)

**Management judgement**  
**Accounting for the outstanding liability for the Private Finance Initiative (PFI) contract in Sale Town Centre**

**Description of the management judgement**

In 2003 the Council entered into a 25 year PFI contract for the provision of new office and community facilities in Sale Town Centre.

The Council has no new PFI schemes in 2019/20, and continues to make judgements that result in the Council accounting for the PFI assets and liabilities in its financial statements.

**How our audit addressed this area of management judgement**

We have considered the continued accounting treatment of the PFI scheme assets and liabilities as being in the Council's financial statements.

**Audit conclusion**

We are satisfied management's judgements in relation to the accounting for PFI schemes remain appropriate.

**Management judgement**  
**Accounting for Schools**

**Description of the management judgement**

The Council continues to account for schools in its single entity financial statements. In addition the Council discloses that it includes in its financial statements the following categories of schools: Community, Voluntary Aided, Voluntary Controlled and Foundation.

**How our audit addressed this area of management judgement**

We have considered the continued accounting treatment of the Council's schools and its compliance with the requirements of the CIPFA Code and other sector guidance.

**Audit conclusion**

We are satisfied management's judgements in relation to the accounting for the Council's schools remain appropriate.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 16 July 2020 and were of a good quality. The accounts were supported by sufficient working papers and additional information has been provided when requested. Throughout the audit process we have received cooperation from the Council's Finance team, recognising the pressure they have been under due to the impact of the pandemic.

### Significant matters discussed with management

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

- The impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures required regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council's valuer has followed RICS guidance and as expected their valuation report concludes that, due to the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been disclosed in the notes to the Financial Statements.
- The Council's adoption of the 'going concern' principle in preparing the Statement of Accounts. The 'going concern' status is confirmed through the 2019/20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of Financial Statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of COVID-19, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular management's explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of COVID-19.
- The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities included as set out earlier in this section:
  - The proposed remedy for the 'McCloud' case which is likely to have led to an overstatement of the original estimate of the Council's pension fund liability as at 31 March 2020; and
  - The 'Goodwin' case, which emerged in 2019/20.

Management obtained a revised report from the actuary that considered the impact of McCloud and Goodwin and has amended the pension accounting entries and disclosures in the Council's financial statements, as set out on page 18.

- Work required by our regulators and other risks emerging during the year. As highlighted in our Audit Strategy Memorandum and in our progress reports throughout the year, as a result of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers we have needed to increase the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. This and other issues emerging during the year (highlighted elsewhere in this report) have had an impact on the fee required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

### 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. As set out on page 8, our testing of valuations is not yet complete due to difficulties in obtaining sufficient supporting evidence for the sample being tested. We are also awaiting responses from the Council's external valuer to queries arising from our sample testing that may result in errors in valuations being identified.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. To date we have received no questions or objections from local electors.

### Modifications required to our audit report

We have identified the following issue(s) which has/have resulted in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.

We have identified the following issue(s) which has/have resulted in us proposing to issue a modified audit opinion. Our draft auditor's report, in full, is set out in Appendix B.

Issue	Impact on our audit opinion
In May 2019 Ofsted issued a report on its inspection of the Council's Children's Social Care Services. The inspection report concluded that the overall effectiveness of the Council's services for children is inadequate. We have considered whether the Ofsted inspection findings indicate a significant Value for Money risk, and have concluded that it does.	We intend to issue a qualified 'except for' Value for Money conclusion for 2019/20 More details are provided in section 6 of this report.

### Possible delay in Audit certificate – Whole of Government Accounts

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts alongside the accounts opinion and value for money conclusion.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts (WGA) consolidation pack.

The NAO's WGA Group Instructions regarding the audit work required and its timetable for audit reporting have been significantly delayed in 2019/20. Group instructions were issued on the 5 November 2020 so the timing of our review of your WGA submission is to be confirmed. We will report the results in our Annual Audit Letter.

As a result, it is likely that we will issue the Auditor's Report without the Audit Certificate. We will issue the Audit Certificate separately as soon as we are able to do so (on completion of our WGA work).

At this stage the draft Auditor's Report at Appendix B assumes that we are unable to issue the Audit Certificate alongside the accounts audit opinion and value for money conclusion.

# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	None
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	2



### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 1

##### Description of deficiency

We encountered difficulties obtaining sufficient evidence from the Council's external valuer to support the revaluation for our sample of land and property and investment property assets. We reported similar difficulties last year and again have found that the valuations for some were not clearly documented. Our testing is still in progress and may result in some errors being identified, which may be material. We will report on this further in our completion letter.

This indicates there is insufficient review of the valuations being undertaken.

##### Potential effects

There is a risk of errors occurring in the valuation of the Council's land and buildings and investment property assets which may lead to significant or material misstatements in the financial statements.

##### Recommendation

Management should put in place arrangements with the Council's external valuer to ensure that:

- Valuations are documented sufficiently so that the basis of calculations and sources of comparable evidence used to inform the valuer's judgement are clear
- Valuations are subject to sufficient quality control checks, by the valuer and by management, to ensure calculations are correct and to identify and correct any errors

##### Management response

Following the recommendations in the 2018/19 audit report, work was undertaken in late 2019 and early 2020 jointly between the Council, the Council's external valuers and the auditors to agree expected sample sizes, format of reports and level of back up detail to be provided to improve the 2019/20 audit process. This included a sensitivity analysis undertaken by Council officers on receipt of the valuation information to address queries with the valuers in advance of the audit.

This agreed process was impacted by Covid-19 (in March/April in particular), plus the external valuations team experienced staffing issues which adversely affected their ability to access and verify some of the information. The sample sizes and level of detail requested during the audit in July 2020 were also higher than had been expected and for which resources were initially allocated. These issues led to delays in providing and verifying the valuations data during the audit.

During the audit a small number of discrepancies were identified between what was initially provided to the Council and included with the financial statements and the supporting evidence. This was mainly in relation to the correct use of obsolescence rates which would normally be expected to be in line with the Valuation Office Agency obsolescence rates 2017.

The Council will further review the valuations process agreed early in 2020 to take account of the issues experienced this year, and not least to ensure the valuations team employed by the Council has the appropriate staffing and systems in place to provide sufficient capacity, expertise and resilience to meet the standards expected for the 2020/21 audit.

## 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

### Other deficiencies in internal control – Level 3

#### Description of deficiency

Note 18 on Financial Instruments did not include the fair value for the three loans with Manchester Airport Group (MAG) resulting in a material disclosure amendment to the accounts as detailed on page 18. This indicates insufficient checks were completed by management to ensure all required fair values were obtained.

#### Potential effects

There is a risk of incomplete disclosure in the financial statements of the fair value of financial instruments.

#### Recommendation

Management should put in place arrangements to ensure all financial instruments requiring a fair value are identified and fair values obtained and included in the required disclosures in the financial statements.

#### Management response

The Council undertakes a review of all financial instruments on an annual basis to consider which instruments should be disclosed at Fair Value. This is undertaken with the support of external advisors. The approach of disclosing the Fair Value of these loans as the same value as the Carrying Value was based on an understanding that these loans could not be redeemed in an open market and thus derive a suitable comparable Fair Value figure. This approach was also taken by a number of Councils within the Greater Manchester group. After extensive discussions with our external advisors and colleagues across Greater Manchester, a conclusion was subsequently reached that a Fair Value could be derived and the note was amended accordingly.

#### Description of deficiency

Note 44 on future minimum lease payments required amendment due to the omission of two leases. This indicates insufficient checks were completed by management to ensure completeness of these disclosures.

#### Potential effects

There is a risk of incomplete disclosure in the financial statements of future lease commitments.

#### Recommendation

Management should put in place arrangements to ensure all leases are identified and included in the required disclosures in the financial statements.

#### Management response

The treatment of the two leases were previously disclosed as a contingent rent on the basis that the Council did not have control of the land and was therefore unable to influence who the land was rented to and for how much. This treatment was consistent with the majority of other Councils across Greater Manchester with the same level of land ownership. On reflection the treatment has been amended accordingly and has been applied consistently across the whole group. A review will however be undertaken of the overall procedures to ensure all leases have been recorded accordingly.

## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.339m.

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

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

### Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Cash and Cash Equivalents			353	
Cr: Short Term Creditors				353
Dr: Gross Income	353			
Cr: Gross Expenditure		353		

Cash and Cash Equivalents are understated due to a creditor balance being included rather than it being disclosed as part of the creditor liability.

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Other Long Term Liabilities - Pensions			6,825	
Cr: Pension Reserve				6,825
Dr: General Fund (via MIRS)	6,827			
Cr: Net cost of service		2,758		
Cr. Re-measurement of net defined benefit/liability		4,069		

As a result of the Actuary providing a revised IAS19 report to take account of additional information regarding recent legal cases (McCloud and Goodwin). There are corresponding adjustments to the group accounts, the Movement in reserves statement, the Cash flow statement and associated notes. The £2k difference above is due to rounding.

### Disclosure amendments

During our review of the financial statements we have identified the following amendments to disclosures which management have agreed to amend. These are presentational and do not impact on amounts in the primary statements, but improve disclosure and Code compliance in the notes. The more significant changes include the following.

**Note 1.(a) Expenditure and Funding Analysis:** Council-wide Net Expenditure Chargeable to General Fund Balances amended from £3,394k to £9,511k as the incorrect amount had been disclosed due to a typographical error. The total for the 'adjustments to arrive at the net amount chargeable to the General Fund' was correct.

**Note 6. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty:** Disclosures added on material uncertainty of the valuations of the Council's land and buildings and investment properties and its share of the Greater Manchester Pension Fund property and investments following the impact of the Covid-19 Pandemic.

**Note 8. Events After the reporting Period:** Disclosures on MAG shareholder Investment (Car Park Development) and MAG Shareholder Loan (COVID-19) amended to ensure subsequent investments were appropriately reflected for completeness.

#### Note 18 Financial Instruments:

- Fair value for MAG loans (included within Long term debtors) was disclosed at the same value as the carrying value and has been amended from £21,056k to £61,289k. The prior year amount has also been amended, from £19,971k to £64,048k and a footnote added to explain this.
- Trafford Bruntwood LLP: "The shares in this company are not traded in an active market and for the financial year 2019/20 the fair value of the shares are compared to £9.041m in 2018/19." The 2019/20 fair value £10.642m has been added.

**Note 21 Debtors:** Manchester Airport Plc. balance £22,925k amended to show the correct balance of £21,057k.

**Note 23 Assets Held for Sale:** Property, Plant and Equipment £3,523k split between transfers to and transfers from surplus assets.

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments (continued)

#### Note 38 Officers' Remuneration:

- £50k bandings disclosure amended to show correct split between schools staff and other staff.
- Senior Officers' Salary disclosures for 2019/20 and prior year disclosures amended to add back amounts for additional annual leave purchased by various officers.

**Note 40 Dedicated Schools Grant:** Amended to show the correct carry forward balance to 2020/21 £(2,895)k.

**Note 44 Leases:** Future minimum lease payments increased to include a lease entered into in 2018/19 that had been omitted ('Moss Lane, Altrincham – Altrincham Football Club') and to reflect rental income from Manchester Airport land previously disclosed as a contingent rent. The prior year disclosures have also been restated for this.

# 5. VALUE FOR MONEY CONCLUSION

## Our approach to Value for Money

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

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

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

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



## Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risks relating to financial sustainability and the Ofsted inspection of children's social care services.

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

## Our overall Value for Money conclusion

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

This is due to the Ofsted inspection report on the Council's Children's Social Care Services issued on 8 May 2019 which concluded that the overall effectiveness of the Council's services for children is inadequate. Last year we considered whether the Ofsted inspection findings indicate a significant Value for Money risk, and concluded that it did. Consequently we issued a qualified 'except for' Value for Money conclusion for 2018/19. Whilst the Council is taking action to address the issues raised by the Ofsted report, as summarised on page 22 of this report, the Ofsted rating of 'inadequate' remains in place and so we intend to issue a qualified 'except for' Value for Money conclusion for 2019/20.



# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant Value for Money risks

Risk	Work undertaken and findings	Conclusion
<p><b>Financial sustainability</b></p> <p>The Council's medium term financial strategy (MTFS) approved by Council in February 2019, set out the financial challenges it faces, with a cumulative funding gap of £28.5m comprising of £15.7m in 2020/21 and £12.8m in 2021/22.</p> <p>In October 2019 the Executive received the draft revenue budget for 2020/21 and MTFS 2021-23. This estimated a revised funding gap of £13m in 2020/21 and £10.2m in 2021/22, and a forecast gap of £8.5m in 2022/23. The report included proposals for additional funding and new savings and income generation which would reduce the gap to £0.7m in 2020/21, £9.9m in 2021/22 and £5.4m in 2022/23.</p> <p>Financial performance reported to the end of November 2019 was a year-end underspend of £0.65m with forecast overspends on service budgets of £4.2m expected to be offset by a forecast underspend of £4.8m on Council-wide budgets. The budget proposals for 2020/21 and updated MTFS to 2023 were being finalised for submission to Council in February 2020. The continuing challenges the Council faces are not new or unique to Trafford Metropolitan Borough Council, but do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p>	<p>To address these risks we have</p> <ul style="list-style-type: none"> <li>Review the Council's outturn against the 2019-20 budgeted position</li> <li>Review the Council's progress in setting a balanced budget for 2020/21</li> <li>Review the Council's arrangements for identifying savings and other measures to address the funding gap going forward</li> </ul> <p><b>Findings</b></p> <p>The Council has maintained appropriate arrangements throughout 2019/20 for ensuring financial resilience. The Council set a balanced budget for 2019/20 with a budget gap of £13.44m to be addressed by additional funding of £3.79m, use of reserves of £2.8m and £6.85m of service savings. The Council has maintained sufficient arrangements for monitoring and forecasting the financial position and identifying risks and taking actions to mitigate them. The budget position has been reported bi-monthly to Executive Cabinet during the year setting out the current position and the projected position at the year end, and an overview of pressures, which are clearly articulated. The reports include an overview of the position for each service area and details of actions taken to address them and mitigate risks.</p> <p>The forecast year end outturn has fluctuated over the year from a £1.9m overspend at month 2 to a forecast £3m overspend at month 4 and then a significant reduction to a forecast overspend of £0.3m at month 6. This reduction was mainly due to an increased favourable variance in Council-wide budgets but with continuing spending pressures on service budgets, in particular Adult Services and Children's Services. The forecast year-end position continued to show improvement and the final year end actual was an underspend of £0.298m. Savings of £6.83m were delivered against the target for the year of £6.855m.</p> <p>Whilst an overall surplus position was achieved, there remain some significant service pressures, in particular in Adult Services and Children's Services which had year-end overspends of £2.8m and £0.5m respectively. At 31 March 2020, the Council's earmarked reserves totalled £63.2m compared with £53.8m at 31 March 2019. The General Fund was maintained at £7m.</p> <p>The draft revenue budget 2020/21 and Medium Term Financial Strategy 2021 to 2023 were considered by the Executive Cabinet in October 2019. This forecast budget gaps totalling £32m over the 3 year period. Proposals to close the gap were subject to Scrutiny Committee review in November 2019 and considered at two Budget Scrutiny Working Group sessions of Executive Members and Senior officers in December 2019.</p>	<p>We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.</p>

(continue overleaf)

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Significant Value for Money risks

Risk	Work undertaken and findings	Conclusion
<p><b>Financial sustainability</b></p> <p>The Council's medium term financial strategy (MTFS) approved by Council in February 2019, set out the financial challenges it faces, with a cumulative funding gap of £28.5m comprising of £15.7m in 2020/21 and £12.8m in 2021/22.</p> <p>In October 2019 the Executive received the draft revenue budget for 2020/21 and MTFS 2021-23. This estimated a revised funding gap of £13m in 2020/21 and £10.2m in 2021/22, and a forecast gap of £8.5m in 2022/23. The report included proposals for additional funding and new savings and income generation which would reduce the gap to £0.7m in 2020/21, £9.9m in 2021/22 and £5.4m in 2022/23.</p> <p>Financial performance reported to the end of November 2019 was a year-end underspend of £0.65m with forecast overspends on service budgets of £4.2m expected to be offset by a forecast underspend of £4.8m on Council-wide budgets.</p> <p>The budget proposals for 2020/21 and updated MTFS to 2023 were being finalised for submission to Council in February 2020. The continuing challenges the Council faces are not new or unique to Trafford Metropolitan Borough Council, but do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p>	<p>The Council set its budget for 2020/21 in February 2020 in line with the statutory requirements and approved an updated Medium Term Financial Strategy 2021 to 2023. In setting the budget, the Council took account of the Local Government finance settlement and the impact of pay increases, inflation levels, demand pressures, etc. However the forecast budget gap increased to £42m over the 3 year period, of which £18.5m related to 2020/21. Measures were identified which would balance the budget in 2020/21, but there remained budget gaps of £15m in 21/22 and £5.7m in 22/23. Work was underway to identify savings to close these gaps.</p> <p>However, the COVID-19 pandemic presents a new and significant challenge to the Council's financial sustainability for 2020/21 and future years. Whilst this had a minimal impact on the Council in 2019/20, additional cost pressures and reduced income have led to the need for the Council to reassess its 2020/21 budget and MTFS. This work is now well underway and will continue over the coming months. An initial assessment of the impact of the pandemic was presented to the Executive Cabinet in April 2020 and estimated an overall adverse impact of £37m in 2020/21 and a possible budget gap in 2021/22 of over £20m. Whilst the Council is currently expecting to manage pressures in 2020/21 to deliver a balanced position for the year, the latest forecast budget gaps reported to the Executive Committee in October 2020 are over £58m over the period 2021 to 2024, almost £16m of which is due to Covid pressures. Proposals have been identified which can reduce the gap to £18m (£4.7m in 2021/22, £5.2m in 2022/23 and £8m in 2023/24). These proposals include the use of earmarked reserves and new savings measures. The Council continues to keep these forecasts and the impact of the continuing pandemic under review. They will be updated as the Government's future funding proposals for local government become clearer.</p> <p>Overall, the Council had appropriate arrangements in place in 2019/20 to monitor and mitigate pressures, particularly in Adult Services and Children's Services. The pandemic is creating further financial pressures and future risks but the Council has appropriate arrangements in place to keep these under review and identify actions to take to manage these pressures. Whilst there is a need to use Council reserves to support services, the Council also recognises that this is not sustainable and is looking to make permanent reductions to the cost base.</p>	

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Significant Value for Money risks

Risk	Work undertaken and findings	Conclusion
<p><b>Ofsted inspection: children's social care services</b></p> <p>In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators.</p> <p>In May 2019 Ofsted issued a report on its inspection of the Council's Children's Social Care Services. The inspection report concluded that the overall effectiveness of the Council's services for children is inadequate.</p> <p>We are aware the Council has taken a number of steps to tackle the issues raised in the Ofsted inspection. However, there remains a risk the Council's arrangements do not secure the required improvements to this key service or that the improvements are not secured in a timely manner.</p>	<p>To address these risks we have considered the progress made by the Council in response to the Ofsted report including any updated commentary from the regulator.</p> <p><b>Findings</b></p> <p>In order to address the issues that led to the 'Inadequate' assessment by Ofsted, an Interim Director of Children's Services was appointed and a shadow improvement board was created in June 2019. A Department for Education (DfE) improvement adviser was also appointed to work alongside the Council to support the improvement process. In August 2019, the shadow improvement board became a multi-agency Children's Improvement Board (CIB).</p> <p>The CIB meets regularly. Attendees include Council members and officers and other stakeholders, including NHS partners. Its independent Chair is the DfE Improvement Adviser. A two year improvement plan has been put in place which identifies the actions required to improve children's services in Trafford, with the aim of moving from the 'Inadequate' assessment to 'Good'. Reports received and matters discussed by the CIB include improvement activity, progress against the improvement plan, the associated risk register and feedback from Ofsted. An appropriate governance framework is in place below the CIB, with workstreams for each area in the Improvement Plan.</p> <p>In January 2020 a proposed three year investment programme for Children's Services was approved by the Executive Cabinet, focussing on early intervention and help to families at risk, to ensure that children are safeguarded at an earlier stage with the aim of avoiding the need for them to be taken into care.</p> <p>A permanent Director of Children's Services (DCS) was appointed at the end of January 2020.</p> <p>Ofsted commenced an interim visit in March 2020 to assess progress but were unable to fully complete it because of the national lockdown and subsequent restrictions during the pandemic. In June, the DfE confirmed their support for Councils to continue to focus on improving services despite the pandemic. This included flexibilities for the duration of the Covid-19 crisis such as Improvement Boards meeting virtually and re-focussing to support management of Covid-19. The timetable for DfE review meetings was also extended.</p> <p>The new DCS has completed the process of putting in place a new leadership team in Children's Services and the three year investment programme is under review to ensure it remains appropriate for future needs.</p> <p>Although Ofsted's planned 3 monthly assessment visits to assess progress were stood down due to Covid-19 crisis, the Council has continued to engage and has received feedback from the DfE. This includes their views on the progress being made, what has gone well and areas of risk going forward. There is also recognition of the risks caused by the current pandemic and associated restrictions that create additional financial and service pressures and future uncertainty.</p>	<p>The Council's Children's Services were assessed by Ofsted as 'inadequate' overall. Although we have concluded that the Council does not have adequate arrangements in place for these services, we are satisfied that the Council is taking urgent action to address the issues identified.</p>

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

Date

Dear Karen

### **Trafford Metropolitan Borough Council - audit for year ended 31 March 2020**

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

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

#### **My responsibility for the financial statements and accounting information**

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

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

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

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

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

#### **Accounting records**

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

#### **Accounting policies**

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

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

### Accounting estimates, including those measured at fair value

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

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

### Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

### Contingencies

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

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

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

There are no undisclosed contingent gains which should be disclosed.

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

### Laws and regulations

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

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

### Fraud and error

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

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

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

### **Related party transactions**

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

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

### **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date. I have considered the impact of COVID-19 on the Council's Investment Properties. An impairment review is therefore not considered necessary.

### **Charges on assets**

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### **Future commitments**

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

### **Subsequent events**

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

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

### **Covid-19**

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

### **Going concern**

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

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

### Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

### Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

### Unadjusted misstatements

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

Yours faithfully

Nikki Bishop  
Corporate Director of Finance and Systems

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of Trafford Metropolitan Borough Council Report on the financial statements

#### Opinion

We have audited the financial statements of Trafford Metropolitan Borough Council ('the Council') and its subsidiary and joint ventures ('the Group') for the year ended 31 March 2020, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Movement in Reserves Statements, the Council and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Trafford Metropolitan Borough Council and the Group as at 31<sup>st</sup> March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter – Effect of the COVID-19 pandemic on the valuation of land, buildings and investment properties

We draw attention to note 6 in the General Notes to the Accounts, which describes the effects of the COVID-19 pandemic on the valuation of the Council's land, buildings and investment properties and the valuation of its share of the Greater Manchester Pension Fund's property and investments. As disclosed in note 6 of the General Notes to the Accounts, the Council's valuers have reported on the basis of 'material valuation uncertainty' and the Greater Manchester Pensions Fund has disclosed in their statements uncertainty with the valuation of property and investments. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Finance and Systems' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Finance and Systems has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Corporate Director of Finance and Systems is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Responsibilities of the Corporate Director of Finance and Systems for the financial statements

As explained more fully in the Statement of the responsibilities for the statement of accounts, the Corporate Director of Finance and Systems is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Corporate Director of Finance and Systems is also responsible for such internal control as the Corporate Director of Finance and Systems determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

The Corporate Director of Finance and Systems is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Corporate Director of Finance and Systems is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Qualified conclusion on Trafford Metropolitan Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Qualified conclusion – Except for

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, with the exception of the matters described in the 'Basis for qualified conclusion' paragraph below, we are satisfied that, in all significant respects, Trafford Metropolitan Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for qualified conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2019, Ofsted reported the results of an inspection of children's social care services. Ofsted concluded that the overall effectiveness of the Council's services for children is inadequate, with widespread deterioration in the quality of local authority services for children in Trafford as a result of failures in leadership.

Our qualification is in relation to those services that have been assessed as 'inadequate'. This qualification will remain until these services are no longer assessed as inadequate by Ofsted.

### Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### **Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Use of the audit report**

This report is made solely to the members of Trafford Metropolitan Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

[Signature]

Karen Murray  
For and on behalf of Mazars LLP  
One St. Peter's Square  
Manchester  
M2 3DE  
November 2020

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# APPENDIX C INDEPENDENCE

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

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



## CONTACT

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