



Audit progress report

Stockton-on-Tees Borough Council

February 2020





CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to Stockton-on-Tees Borough Council. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Since the Committee last met we have:

- held internal planning meetings as part of our planning process for the 2019/20 audit;
- had update meetings with finance in respect of planning for the 2019/20 interim and final audit visits;
- undertaken planning work to refresh our documentation in respect of the Council's systems (including undertaking walkthrough testing);
- refreshing our understanding of the processes in place at the Council that inform the preparation of the financial statements;
- undertaken our risk assessment as part of planning for our 2019/20 VFM conclusion;
- developed our joint liaison protocol with Internal Audit; and
- prepared our Audit Strategy Memorandum, which is being presented to the Audit Committee as a separate item at the February 2020 meeting.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

Final accounts workshop

As in previous years, we are running an annual final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. The most local workshop for Stockton is being held on 4 February 2020 and finance officers from the Council are attending the event, which is free of charge.

Certification of claims and returns

As members will be aware, the Council is required by funding bodies to arrange independent certification of a range of grant claims and returns.

Work on claims and returns since our last update includes:

- Certification of the Council's 2018/19 Housing Benefit Subsidy Claim. This is an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to DWP for housing benefits, as detailed in guidance issued by DWP "Housing Benefits Assurance Process" (HBAP). The purpose of the engagement is to perform the specific test requirements determined by DWP on the defined sample basis. The relevant requirements are set out in Modules of the HBAP reporting framework and we report the results of those procedures to the Council and DWP, in an 'agreed upon procedures' report.

The 2018/19 claim was amended and we also reported matters in our 'agreed upon procedures' report to DWP. Detailed findings, including the extrapolation of errors identified, were reported in our agreed upon procedures report to the DWP dated 20 November 2019, a copy of which was also provided to the Council. The table below summarises our findings:

Claim or return	Value of claim or return	Amended (1)	Matters reported (2)
Housing benefit subsidy 2018/19	£61,775,240	Yes	Yes

1) Relating to 2 errors that were adjusted for that had a net impact approximately £7,000 reduction in subsidy payable.

2) Relating to a case that had an impact of £377 which related to 2019/20, but was include in the 2018/19 claim.

Our fees for the 2018/19 engagement were in line with our engagement letter agreed with Officers, being £9,900, plus VAT.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1.	Local Government Financial Resilience index	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
2.	Financial Management Code	Guidance for good and sustainable financial management in local authorities.
3.	Prudential Property Investment	Guidance on prudent investments in commercial properties.
Local Government Association (LGA)		
4.	Probity in planning: advice for councillors and officers making planning decisions	This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning.
5.	Chief executives' 'must know' for children's services	How to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.
Mazars LLP		
6.	Annual Transparency Report, Mazars	Sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.
7.	Mazars' response to the Brydon Review	Mazars' response to the latest review into the auditing profession which was published in December 2019.

1. Audit progress

2. National publications

2. NATIONAL PUBLICATIONS

1. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

2. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/ff/financial-management-code>

2. NATIONAL PUBLICATIONS

3. Prudential Property Investment, CIPFA, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the creditability of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

4. Probity in planning: Advice for councillors and officers making planning decisions, LGA, December 2019

This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning. It clarifies how councillors can get involved in planning discussions on plan making and on applications, on behalf of their communities in a fair, impartial and transparent way. This guide has been written for officers and councillors involved in making planning decisions in their local authority and does not constitute legal advice.

<https://www.local.gov.uk/probity-planning-advice-councillors-and-officers-making-planning-decisions>

5. Chief executives 'must know' for children's services, LGA, December 2019

This is not intended to be a comprehensive blue-print for guaranteed results. Rather, it is intended to be a clear summary guide for chief executives, showing how to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.

Key messages stated in the publication include:

- Together with the director of children's services, the lead member for children's services, and the leader or mayor, the chief executive has a key leadership role across the council and working with other local agencies to improve outcomes for children and young people. This strategic 'quartet' of political and officer leadership is fundamental to effectiveness and sustained improvement. It is the role of the chief executive, as the most senior professional concerned, to ensure the quartet is at least functional, at best, collectively inspirational and transformational.
- While the director of children's services and lead member have statutory responsibilities for delivering effective children's services and providing corporate leadership to champion the needs and improved outcomes for children and young people, the chief executive has a crucial role to ensure the whole council supports children and young people and enables the director to fulfil their role. The chief executive also plays the fundamental role in the effective professional oversight and line management of the director of children's services.
- Due to the complex nature of running a council, and the challenge of balancing workload pressures, chief executives might not have the time to develop an in-depth understanding of the ongoing performance of complex services. They instead must establish a system of delegated responsibility and performance reporting in order to fulfil their, and the council's obligations. Being in the chief executive position brings with it particular risks and challenges, especially when that complex service is children and young people, where the risks are high and the cost of failure can be profound, yet the signals of deteriorating performance may at best be opaque.

<https://www.local.gov.uk/chief-executives-must-know-childrens-services>

2. NATIONAL PUBLICATIONS

6. Annual Transparency Report, Mazars, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

7. Mazars' response to the Brydon Review, Mazars, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published, and we await its outcome with interest.

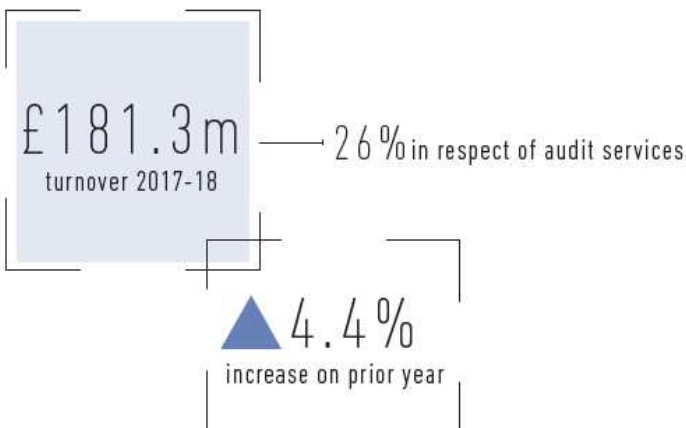
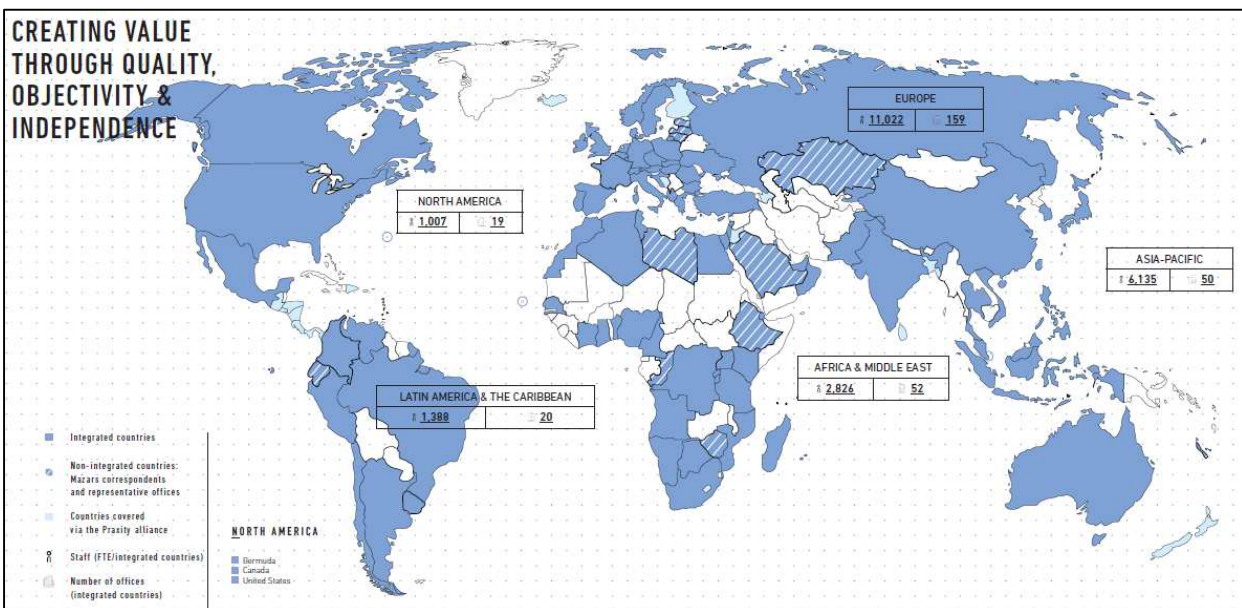
<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



CONTACT

Director: Gavin Barker

Phone: 0191 383 6300

Mobile: 07896 684771

Email: gavin.barker@mazars.co.uk

Senior Manager: Gareth Roberts

Phone: 0191 383 6323

Mobile: 07815 879557

Email: gareth.roberts@mazars.co.uk