

# Audit Completion Report

Stockton-on-Tees Borough Council –  
Year ended 31 March 2021

October 2021



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Audit and Governance Committee  
Stockton-on-Tees Borough Council  
Municipal Buildings  
Church Road  
Stockton-on-Tees  
TS18 1LD

21 October 2021

Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Dear Committee Members

## **Audit Completion Report – Year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 28 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We 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 07896 684771.

Yours faithfully

A handwritten signature in black ink that reads "Gavin Barker". The signature is enclosed in a thin black rectangular box.

Gavin Barker

Mazars LLP

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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Net defined benefit liability valuation;
- Valuation of property, plant and equipment; and
- Depreciation of property, plant and equipment.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £4,951k. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### 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.

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# 02




Section 02:

**Status of the audit**

# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Pensions		We are waiting for assurances from the pension fund auditor. We are unable to sign off until we receive these assurances, which are provided by another audit firm.
WGA		We are awaiting group instructions from the National Audit Office. This will impact on the timing of issuing our audit certificate to formally conclude and close the audit.
Post balance sheet events		Our review is ongoing up until the date of signing the auditor's report (the Opinion).
Audit closure		Review and closure processes, including checking the amended version of the financial statements.

-  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.



# 03

Section 03:

**Audit approach**



# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £9.614m for the Council and £9.65m for the Group using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £9.126m for the Council and £9.145m for the Group using the same benchmark.

## Use of experts



For property, plant and equipment valuations we planned to rely on the internal valuer from the Council and the external valuers for specific assets. In addition to this we used our own internal valuer as an auditor's expert in relation to the prior year valuation of leisure centres.



# 3. Audit approach

## Group audit approach

Group component	Approach adopted	Key points or other matters to report
Stockton Borough Holding Company Limited	●	No key points or other matters to report.
Stockton Hotels Company Limited	●	No key points or other matters to report.

- 
**Full audit**  
 Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality
- 
**Audit of balances and/or disclosures**  
 Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality
- 
**Specific audit procedures**  
 Performance of specific audit procedures on the component's financial information
- 
**Review procedures**  
 Review of the component's financial information prepared for group reporting purposes using the component materiality assigned



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 15 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; and
- any significant difficulties we experienced during the audit.

## Significant risks

Management	Description of the risk
<b>override of controls (Council and Group)</b>	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.
	<b>How we addressed this risk</b>
	We addressed this risk through performing audit work over: <ul style="list-style-type: none"> <li>• Accounting estimates impacting amounts included in the financial statements;</li> <li>• Consideration of identified significant transactions outside the normal course of business; and</li> <li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
	<b>Audit conclusion</b>
	Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.



## 4. Significant findings

<b>Net defined benefit liability valuation (Council)</b>	<b>Description of the risk</b>
	The 2020/21 financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions.
	<p><b>How we addressed this risk</b></p> <p>In addition to our standard programme of work in this area, we evaluated the management controls in place to assess the reasonableness of the figures provided by the actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</p>
	<b>Audit conclusion</b>
	There was a material adjustment to pension asset values which has been amended for in the accounts and is explained in section 6. The only outstanding issue is the receipt of assurance from the pension fund auditor.

<b>Valuation of property, plant and equipment (Council)</b>	<b>Description of the risk</b>
	The 2020/21 financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE).
	Although the Council employs a valuation expert to provide information on valuation, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.
	<b>How we addressed this risk</b>
	We considered the Council's arrangements for ensuring that PPE values are reasonable, challenged the reasonableness of the valuations provided by the Council's valuer, HCS, Knight Frank and the District Valuer Service using other sources of data, assessed the competence, skills and experience of the valuers and the instructions issued to the valuer and, where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.
	<b>Audit conclusion</b>
	Subject to the misstatements reported in section 6 and corrected by management, our work has provided the assurance we sought and we have not identified any other matters to report in relation to property, plan and equipment valuations.

# 4. Significant findings

## Key areas of management judgement

<b>Depreciation of PPE (Council)</b>	<b>Description of the management judgement</b> PPE is depreciated over its useful life in the financial statements.
	<b>How our audit addressed this area of management judgement</b> We tested the underlying calculation of depreciation to ensure it is reasonable.
	<b>Audit conclusion</b> Testing confirmed the calculation of depreciation is reasonable.



# 4. Significant findings

## Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

Draft accounts were received from the Council on 16 June 2021, well ahead of the statutory deadline, and were of a good quality. Working papers and supporting evidence was of a high standard.

## Significant matters discussed with management

### Leisure centre valuations

The Council’s leisure centres had previously been valued by the internal valuer with an adjustment made to the amounts relating to Tees Active leases. The assets were revalued by the district valuer in the current year and no adjustment was made for the Tees Active leases. Discussions with our internal valuer and management confirmed that the district valuer’s approach in the current year was correct and consequently an amendment needed to be made to the prior year figures. This resulted in a third balance sheet being included in the statements in line with the Code.

### Covid-19 Business support

The Council administered over £50m of financial assistance to local businesses on behalf of the Government. This support, and the associated income, is not reflected in the Council’s financial statement because the Council demonstrated it acted as an agent of the Government. We considered the adopted financial reporting approach and agree that relevant guidance and accounting standards mean it is reasonable.

## 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.



# 4. Significant findings

## 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 2020/21 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. No questions or objections have been raised with us.





# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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 work has not highlighted any significant deficiencies in our 2021/21 audit to report and there are none from 2019/20 to follow up.



# 06

Section 06:

**Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £274,000.

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 were identified during the course of our audit which management has adjusted. None of the adjusted misstatements impact on the overall financial performance in the year or the useable reserves available to the Council.

### Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Expenditure	4,951			
	Cr: Creditors				4,951
<p>Accounts payable cut-off work identified 4 invoices which had not been correctly accrued at the year end with a total value of £356k (revenue £109k and capital £246k) . Extrapolated error using the value of the error applied to the population is £4,951k which is below materiality. This calculation is simply to demonstrate that the error is unlikely to have a material impact on the financial statements. Management do not wish to amend for this error as it is based on an extrapolation, and we accept this as reasonable.</p>					
<b>Total unadjusted misstatements</b>		4,951			4,951

## 6. Summary of misstatements

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Revaluation reserve			8,496	
	Cr: Property, plant and equipment – land and buildings				8,496
	Dr: Surplus or deficit on revaluation reserve	8,496			
	(The Credit entry of £8,496k is to the Movement in Reserves Statement)				
	White water centre incorrectly capitalised, because this asset does not belong to the Council.				
2	Dr: CIES leisure	19,161			
	Dr: Surplus or deficit on revaluation reserve	833			
	Cr: Revaluation reserve				833
	Cr: Capital adjustment account				19,161
	Adjustment for in-year valuation of leisure centres, impact on balance sheet offset by prior year adjustment in the following table.				

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## 6. Summary of misstatements

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
3	Dr: Property, plant and equipment			189	
	Dr: Capital adjustment account			239	
	Cr: Revaluation reserve				428
	Cr: CIES leisure		189		
	(The Debit entry of £189k is to the Movement in Reserves Statement)				
	White water centre adjustment to historic cost depreciation				
4	Dr: Pensions reserve			9,775	
	Cr: Long term liabilities				9,775
	Dr: Re-measurement of the defined benefit liability – losses	9,775			
	(The Credit entry of £9,775k is to the Movement in Reserves Statement)				
	Correction to pension fund net assets. Asset values were revised downwards in an updated actuary report.				
<b>Total adjusted misstatements</b>		<b>38,265</b>	<b>189</b>	<b>18,699</b>	<b>38,693</b>

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# 6. Summary of misstatements

## Adjusted misstatements – prior year

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, plant and equipment – land and buildings			19,993	
	Cr: Revaluation reserve				1,896
	Cr: Capital adjustment account				18,097
	Prior year understatement of leisure centres				
<b>Total adjusted misstatements in the prior year</b>					<b>19,993</b>



# 6. Summary of misstatements

## Disclosure amendments

Our audit has identified the following disclosure matters that management has agreed to amend:

- CIES, gain on the disposal of non-current assets of £291k should be shown in income column rather than expenditure column.
- Note 5 assumptions made about the future and other major sources of estimation uncertainty, revised to refer specifically to the hotel valuation.
- Note 11 PPE, assets held under finance leases of £1.8m was the prior year disclosure and needed to be updated, amendments to valuations table.
- Note 28 grant income, the figures for Basic Needs Grant and Disabled Facility Grants were the wrong way around, some other entries included on the wrong lines - no impact on grant total.
- Note 29 financial instruments, there was a difference between the short term borrowing figure on Note 29 (£5,016k) and the short term borrowing figure on the Balance Sheet (£,5667k). Note 29 amended.
- Note 29 financial instruments, misclassification of £887k of loans due within 1 year and due after 1 year. No impact on loan balance overall.
- Note 31 defined benefit pension schemes, there was a manual adjustment of £7,491k made to last year's value of assets. This was subsequently decided to be an error however was not amended. In order to correct the balance on the pension fund £7,491k had been added to the return on plan assets for the current year. However the disclosures for plan assets for both years are as per the IAS19 reports and therefore were inconsistent with other disclosures and the previous year. Amended to show the previous years disclosures as per last year and revised re-measurement gain of £173,910k. Has no impact on the reported net assets as at 31/03/2021 of £873,183k.
- Note 32 termination benefits, figures disclosed did not include employer's national insurance on payments over £30k

Our audit has identified the following disclosure matters that management has decided not to amend:

- Note 18 finance leases, all of the finance lease of £3,794k was classified as long term. Of this balance an estimate of £842k is due within 1 year - has no impact on net liability due.





# 07

Section 07:

**Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Our work to date has not identified any risks of significant weaknesses in arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in November 2021.

## Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2021 and we have not identified any significant weaknesses in arrangements that have required us to make a recommendation. Our draft audit report at Appendix B confirms that we have no matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in November 2021.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

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# Appendix A: Draft management representation letter

To: Mr Gavin Barker  
Director  
Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

[Date]

## Stockton-on-Tees Borough Council (and Group) - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Stockton-on-Tees Borough Council (and Group) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

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 statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Council/Group you determined it was necessary to contact in order to obtain audit evidence.



# Appendix A: Draft management representation letter

I confirm as Chief Financial Officer 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 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 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 the Code and International Accounting Standard 8 and consider them appropriate for the year.

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

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

### 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 contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council/Group 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 Code and applicable law.



# Appendix A: Draft management representation letter

## 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/Group 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 Chief Financial Officer 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 statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council/Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's/Group'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 (including sales, purchases, loans, transfers, leasing arrangements and guarantees) 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/Group'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 below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.



# Appendix A: Draft management representation letter

**Charges on assets**

All the Council's/Group'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.

**Service Concession Arrangements**

I am not aware of any material contract variations, payment deductions or additional service charges in 2020/21 in relation to the Council's PFI schemes that you have not been made aware of.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code 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**

I 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 accounts, including the event after the balance sheet note to the financial statements, fairly reflects that assessment.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council will cease to 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

**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. Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure.

Yours sincerely

Director of Finance, Development and Business Services

Date.....



# Appendix B: Draft audit report

## Independent auditor's report to the members of Stockton-on-Tees Borough Council

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Stockton-on-Tees Borough ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Collection Fund 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 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 2020/21.

#### 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.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance, Development and Business Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance, Development and Business Services with respect to going concern are described in the relevant sections of this report.

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# Appendix B: Draft audit report

## Other information

The Director of Finance, Development and Business Services is responsible for the other information. The other information comprises the Annual Governance Statement and other 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 Director of Finance, Development and Business Services for the financial statements

As explained more fully in the Statement of the Director of Finance, Development and Business Services’ Responsibilities, the Director of Finance, Development and Business Services 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 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance, Development and Business Services is also responsible for such internal control as the Director of Finance, Development and Business Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance, Development and Business Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance, Development and Business Services 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.



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We evaluated the Director of Finance, Development and Business Services' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Governance Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance, Development and Business Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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.

## Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

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We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

## 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.

## 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. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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.

## Use of the audit report

This report is made solely to the members of Stockton-on-Tees 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.

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## 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; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker  
Director

For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Date



# 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.



# Appendix D: Other communications

Other communication	Response
<b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
<b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
<b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going Concern</b>	<p>We have not identified any evidence to cause us to disagree with the Director of Finance, Development and Business Services that Stockton-on-Tees Borough Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



# Appendix D: Other communications

Other communication	Response
<p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Audit and Governance Committee, confirming that</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



Gavin Barker, Director

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## Mazars

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

\*where permitted under applicable country laws.