

AGENDA NO:

REPORT TO CABINET

**REPORT OF THE CORPORATE
MANAGEMENT TEAM**

13 FEBRUARY 2014

CABINET DECISION

ANNUAL AUDIT LETTER 2012/13

Corporate Management and Finance – Lead Cabinet Member – Councillor Harrington

1. Summary

To present to Members of the Cabinet, the Annual Audit Letter for 2012/13.

2. Recommendation

That Members note the contents of the letter.

3. Reasons for the Recommendation/Decision

The external auditor, Mazars LLP, is required to present its findings to the Council's Cabinet Committee.

4. Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Council's code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph 18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code.

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code)

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ANNUAL AUDIT LETTER 2012/13

SUMMARY

To present to Members of the Cabinet, the Annual Audit Letter for 2012/13.

RECOMMENDATION

That Members note the contents of the letter.

BACKGROUND

1. Members will recall that in 2012 the Audit Commission appointed new external auditors to the Council and that from 1st September 2012 the Council's external audit service has been provided by Mazars LLP.
2. A formal stage in the annual audit process is the production of the "Annual Audit Letter". The Annual Audit Letter for 2012/13 has now been received and is attached as an Appendix to this report.
3. The Annual Audit Letter summarises the auditor's findings from the 2012/13 audit. In line with previous practice, a copy of the Annual Audit Letter will be sent to all Members of the Council. Mazars LLP are required to submit the Annual Audit Letter to the Audit Commission and it will appear on the Commission's website in due course.

DETAIL

4. Mazars LLP has issued an unqualified audit opinion on the Council's financial statements for 2012/13 and no material amendments were required.
5. Mazars LLP has issued an unqualified value for money conclusion stating that it is satisfied that "the Council continues to demonstrate proper arrangements for challenging how it secures economy, efficiency and effectiveness."
6. The report goes on to say that "the Council's finance function is well-qualified, informed and capable and the overall finance governance culture is strong."

FINANCIAL AND LEGAL IMPLICATIONS

7. None directly. The Letter demonstrates that the Council continues to maintain sound financial systems.

CONSULTATION INCLUDING WARD/COUNCILLORS

8. The report presents the Annual Audit Letter for Members' consideration. A copy will be sent to all Members of the Council.

RISK ASSESSMENT

9. The letter does not present any risks. It comments on the Council's overall governance arrangements which are performing well.

EQUALITIES IMPACT ASSESSMENT

10. An Equality Impact Assessment is not required as this report presents the external auditor's view of the Council.

SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS

11. Not applicable.

Contact Officer:

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Background Papers:

Reports from Mazars LLP provided to the Audit Committee in 2013:

Audit Strategy Memorandum	January 2013
External Audit - Progress Report	February 2013
External Audit - Progress Report	June 2013
External Audit - Progress Report	September 2013
Audit Completion Report	September 2013
External Audit - Progress Report	December 2013

Property:

No implications in relation to Council property.

Annual Audit Letter

Stockton-on-Tees BC – year ended 31 March 2013

October 2013



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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01

Key messages

This letter summarises the findings from our 2012/13 audit of Stockton-on-Tees Borough Council.

Key messages

Our 2012/13 audit of Stockton-on-Tees Borough Council was made up of two elements:

- our audit of the financial statements; and
- our assessment of arrangements for achieving value for money in your use of resources.

We summarise below the key conclusions for each element.

Audit opinion and financial statements

We issued an audit report including an unqualified opinion on the Council's financial statements on 30th September 2013. Our audit progressed smoothly, and identified only a small number of errors.

Value for money

We undertook work in line with Audit Commission guidance, including specific work on the robustness of the Council's updated Medium-Term Financial Strategy. We concluded that the Council had proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources.

We also issued our certificate, closing this year's audit, on 30 September 2013.

Forward look

This letter represents the completion of our first year as your appointed auditor, and we look forward to continuing the effective working arrangements we have developed with you. We recognise the challenges you face, which include:

- further reductions in the revenue budget, requiring savings of more than £50 million over the 7 years to 2016/17;
- pressure on demand led services such as those for looked after children, education and adult social care;
- a continuing programme capital works and redevelopment, including the Town Centre and High Street.

We focus our audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money. Where relevant we will also share useful insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

02

Financial Statements

The Council produced good quality accounts. This supported an efficient audit and we issued an unqualified opinion before the deadline.

Findings and conclusions

Financial statements

The financial statements are an important tool for the Council to communicate how it has used public money. We issued an audit report including an unqualified opinion on the financial statements on Council. Our audit progressed smoothly, and identified only a small number of errors.

The draft financial statements were of a high quality overall; as were the supporting working papers. We identified no significant issues in the course of our audit, and no material errors were identified. The Council's finance team were very cooperative whilst we undertook our work, helping us to complete our audit work efficiently.

Audit findings

Our detailed findings were reported in our Audit Completion Report to the Audit Committee at its meeting on 23 September 2013. These findings are summarised as follows:

- We did not identify any issues with the qualitative elements of the financial statements that we were required to report to those charged with governance.
- We identified scope to improve internal controls and accounts preparation, and we reported the action management is taking in response.
- We requested a number of amendments to disclosures in the financial statements. All identified errors and misstatements were discussed with management and corrected in the published accounts.

03

Value for money

Our work shows that the Council maintained proper arrangements for securing the 3 Es in use of resources during 2012/13 despite increasing pressure on resources.

Value for money

To inform our work in this area we drew upon:

- our audit work on the Council's Annual Governance Statement as part of the audit of the financial statements;
- the Council's own assessment of its arrangements to challenge and continuously improve the way it uses its financial resources; and
- risk based work on the robustness of the Medium Term Financial Strategy.

Our work in these areas allowed us to satisfy ourselves that despite the significant pressures and challenges faced by the Council it maintained proper arrangements for securing value for money in its use of resources during 2012/13.

Annual Governance Statement

There were no issues arising from our review of the Council's Annual Governance Statement that led us to consider the Council did not have proper arrangements for securing economy, efficiency and effectiveness.

Arrangements to secure value for money

We found that the Council continues to demonstrate proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council's finance function is well-qualified, informed and capable and the overall financial governance culture is strong. In particular:

- financial planning is integrated and forward-looking in the Medium Term Financial Plan, which is regularly updated and fundamental to the Council's Forward Plan.
- reserves are sufficient to meet current plans and have been managed well; and
- there are clear arrangements for financial monitoring, forecasting and reporting.

04

Added value

We have continued to seek ways to add value to the Council.

Added value

As a major firm of accountants and advisors with a commitment to improving public services we are well placed to support the Council as it moves forwards and develops the way it operates. We do this within the ethical standards applicable to external auditors and with the agreement of the Council.

Additional services

As part of our commitment to the sector as a whole and to you as our client, we provide you with relevant, practical insights from our knowledge of the emergency services, local government, and NHS sectors and experience of other public and private sector organisations.

During the year, through our regular meetings with the Chief Executive and Corporate Director of Resources, and through our attendance at Audit Committee meetings we have provided relevant information.

In February 2013 members of your finance team attended a workshop aimed at supporting our clients to prepare their 2012/13 financial statements and to provide an early insight into future developments in financial reporting that may be relevant to the local government sector. We plan on holding similar events in early 2014.

05

Fees and closing remarks

Effective working with the Council has ensured our fees are in line with those agreed with you at the start of this year's audit.

Fees and closing remarks

Our audit fees for the year are in line with those communicated to you in our Audit Strategy Memorandum dated January 2013, being £167,940 (plus VAT). We did not undertake any non-audit services for the Council in 2012/13.

We have discussed this letter with the Corporate Director of Resources and will provide copies for all Members. Further detailed findings and conclusions in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
2012/13 Fee Letter	November 2012
Audit Strategy Memorandum	January 2013
Audit Completion Report	September 2013
Auditor's report on the financial statements and value for money	September 2013

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit in the past year.

Mark Kirkham

Director

October 2013