

# Annual Audit Letter 2014/15

**Stockton-on-Tees Borough Council**

October 2015



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October 2015

Dear Members

**Stockton-on-Tees Borough Council - Annual Audit Letter 2015**

I am delighted to present to you Stockton-on-Tees Borough Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2014/15 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/15 has been another challenging year for the Council and like most other authorities in the North East, Stockton-on-Tees made some tough decisions on its spending priorities and plans for the future. We reflect on these matters in the value for money and future challenges sections of this letter.

I would like to express my thanks for the assistance of the Council's finance team, as well as Senior Officers and the Audit Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Martin Barnes on 0191 383 6325.

Yours faithfully

Mark Kirkham  
Partner  
Mazars LLP

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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.*

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# 01 Key messages

## **Purpose of this letter**

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In 2014/15 our audit of the Council included the following main elements:

- auditing your financial statements; and
- assessing arrangements for achieving value for money (VFM) in your use of resources.

We reported the detailed findings from our audit work to the Audit Committee in our Audit Completion Report on 28 September 2015. We also confirmed that your Whole of Government Accounts (WGA) return was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

## **Our audit of the statement of accounts**

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

## **Our VFM conclusion**

We carried out sufficient, relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified VFM conclusion on 30 September 2015.

## **Whole of Government Accounts**

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. The Council's activity is sufficient to require us to carry out a full review.

We reported that your consolidation pack was consistent with the audited statement of accounts.

## **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest.

We did not receive any questions or objections in relation to your 2014/15 accounts from local electors, nor did we exercise our wider reporting powers.

# 02 Financial statements

## **Audit of the financial statements**

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit Committee on 28 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2015.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were provided on a timely basis throughout the audit, and were of high quality.

## **Issues arising from the audit of the accounts**

We highlight the following key points:

- good quality draft statements and working papers;
- few errors in the financial statements, either adjusted or unadjusted and no errors impacting on the Council's general fund balance or earmarked reserves;
- no new significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- a minor recommendation raised to further enhance accounts preparation.

## **Annual Governance Statement (AGS)**

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

# 03 VFM conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance on the VFM conclusion for 2014/15.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
<b>The Council has proper arrangements in place for securing financial resilience.</b>	Systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables the Council to continue to operate for the foreseeable future.
<b>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	Prioritising resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your Annual Governance Statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (none in 2014/15); and
- carry out any risk-based work we determined to be appropriate.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position. We included the results of our review of arrangements for securing VFM in a separate report to the Audit Committee on 28 September 2015.

## Risk based work

In our view, ongoing uncertainty as to the scale of future decreases in central funding presented a significant audit risk in respect of the financial resilience criterion. In response to this risk, we assessed a range of evidence including:

- your medium term financial plan and strategy; and
- mechanisms for reporting to Members on financial performance, against both annual budgets and targets, and the medium term financial strategy and savings plans.

As reported in our Audit Completion Report, we were able to gain sufficient assurance from our work to mitigate the audit risk. We also note the Council's recognition of the financial challenges it faces, and the openness of reporting to the public on these challenges and the action planned.

## Overall conclusion

We satisfied ourselves that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015 and we issued an unqualified VFM conclusion in the audit report.

# 04 Future challenges

## Financial challenges

The Council has been successful in recent years in planning and delivering realistic and practical savings plans, enabling it to absorb significant reductions in funding. The Council's approach allows it to plan ahead via the MTFPS, and manage a pragmatic expectation of continued funding reductions. The Medium Term Financial Plan and Strategy (MTFSP) was updated in July 2015 and sets out how the Council expects to continue delivering services and maintaining financial stability with a 'budget gap' expected to reach £23.8m by 2018/19.

Within this amount, £11.4m of the cost reductions and savings are expected to be met from 'Big Ticket' reviews of social care for adults and children, and of energy and waste management. The reviews, which began in 2013, have already delivered significant savings from investment in new initiatives and service delivery models, which means that £6.7m of the 2018/19 target has already been identified.

Other areas of service expenditure are balanced in the next financial year but the Council is predicting that by 2018/19, further recurrent savings of £12.4m will need to be identified and secured alongside the remaining £4.7m from the 'Big Ticket' areas. In overall terms, in delivering the MTFPS the Council's plans and processes aim to reduce service expenditure by a further 9.5% compared to the current year.

The Council underspent on its 2014/15 budget, ending the year with general fund balances of £6.8m and earmarked revenue and capital reserves of £128.9m. The level of reserves provides the Council with a degree of flexibility in securing its financial position as it plans and delivers its medium term strategy.

## Other challenges

Strategic objectives are defined in the Council Plan 2015-18 which sets out the overall ambitions and priorities of the Council and charts the objectives, key actions and outcomes it aims to deliver along with the measures of success that will be used to challenge and monitor progress. Progress is regularly reported to Members.

The Council faces a number of other challenges in the coming year which we will take account of in our audit plans. These challenges include:

- fair value accounting;
- the ongoing impact of the Welfare Reform Act;
- better care funding and associated pooled budgets with health partners; and
- joint working with health and others.

Each year undoubtedly becomes harder and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans well ahead of the relevant financial year. As we have seen in recent years, the Council is exploring innovative service redesign solutions to preserve service delivery and financial stability, such as new partnerships, joint ventures and 'invest to save' initiatives. When doing so, we have noted that the Council adopts controlled processes to mitigate risks.

We will continue to work closely with officers and will monitor the Council's response to the issues outlined during our 2015/16 audit.

# 05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 30 April 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
Code audit work	£178,440	£169,010	£169,010
Certification work	£15,965	£25,340	£25,340
Non-audit work	£0	£0	£16,850
<b>Total</b>	<b>£194,405</b>	<b>£194,350</b>	<b>£211,200</b>

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's 2014/15 Housing Benefit claim.

Non-audit work during the year relates to our work on a number of 2013/14 grant claims and returns for the Council and Tees Valley Unlimited, for which it is the accountable body. Work programmes and fees for these assignments are agreed separately with the Council.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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