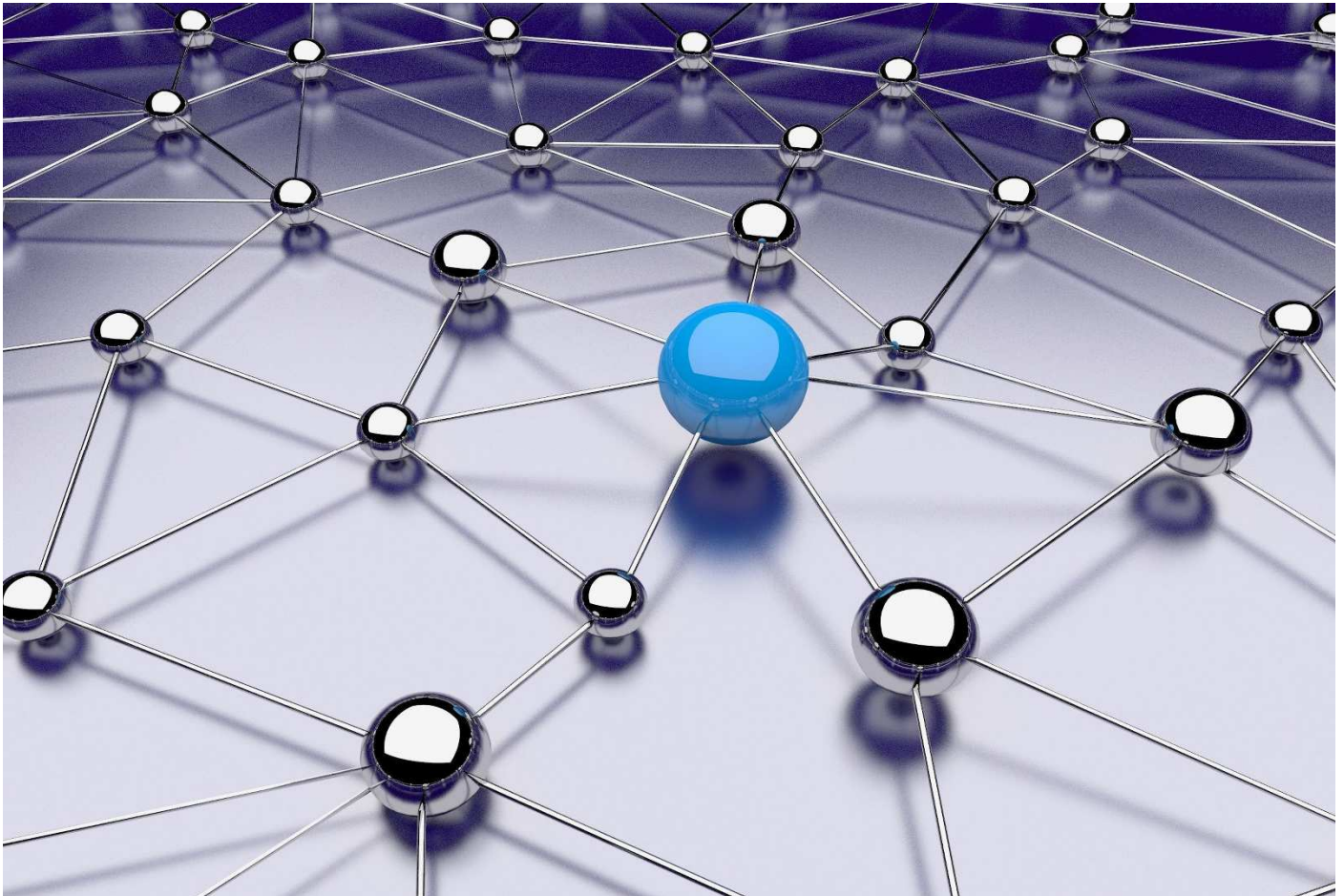


# Stockton-on-Tees Borough Council

## Annual Audit Letter 2015/16

October 2016



**Stockton-on-Tees**  
BOROUGH COUNCIL

Mazars LLP  
Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

October 2016

Members  
Stockton-on-Tees Borough Council  
Municipal Buildings  
Church Road  
Stockton-on-Tees  
TS18 1LD

Dear Members

**Annual Audit Letter 2015/2016**

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 our audit of the Council's 2015/16 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 issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

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 on 0191 383 6300.

Yours faithfully

**Mark Kirkham**  
Partner  
Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. 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

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members, and other interested parties.

We reported the detailed findings from our audit work to the 26 September 2016 Audit Committee in our Audit Completion Report, and follow up letter.

We also completed our reporting to the National Audit Office on your whole of government accounts return. The key conclusions for each element are summarised below.

## **Our audit of the financial statements**

We issued an audit report including an unqualified opinion on the Council's financial statements on 28 September 2016.

## **Our VFM conclusion**

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 28 September 2016.

## **Whole of Government Accounts (WGA)**

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. We reported to the NAO that your consolidation pack was consistent with the audited statement of accounts on 28 September 2016.

## **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. 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 about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

## **Certificate**

We issued our certificate, closing this year's audit, on 28 September 2016.

# 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 Audit Committee on 26 September 2016 in our Audit Completion Report and follow up letter. We issued an audit report, including an unqualified opinion, on the statement of accounts on 28 September 2016.

## Preparation of the accounts

The Council presented us with draft accounts in advance of the national deadline, as part of their preparations for the national deadline being brought forward in 2018. Working papers and other supporting evidence were of a good standard overall and queries were answered promptly. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently.

## Issues arising from the audit of the accounts

We would like to highlight the following key points from our audit:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified and non were significant in nature;
- management decided not to amend a small number of errors on the grounds of materiality, which we accepted; and
- the audit progressed well and there were no significant difficulties encountered. The audit was largely complete by the end of July 2016, as part of our own preparations for the national deadline for the Council to publish audited accounts moving to the end of July in 2018 from the current end of September deadline.

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer remuneration and members' allowances.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £9.169m.

In applying our view of materiality we identified the following two significant risks:

- management override of controls; and
- pension estimates (IAS19) in the financial statement.

We carried out a programme of work to address these risks which included including the testing of journals, transactions and disclosures. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit report. We did not identify any material errors in your statement of accounts.

## **Annual Governance Statement**

The aim of the Annual Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Annual Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Council. We found no areas of concern to report in this context.

## **Weaknesses in internal control**

We did not identify any significant deficiencies in the accounting and internal control systems during the course of the audit.

## **Assurance to the National Audit Office and Certificate**

We issued our certificate, closing this year's audit, on 28 September 2016 on completion of our reporting to the National Audit Office on your Whole of Government Accounts return.

# 03 VFM conclusion

For 2015/16, we are required to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This required us to consider one overall criterion as set out below.

The overall criterion set out by the NAO is:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
<b>Informed decision-making</b>	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</li><li>• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities.</li><li>• Managing risks effectively and maintaining a sound system of internal control.</li></ul>
<b>Sustainable resource deployment</b>	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</li><li>• Managing and utilising assets effectively to support the delivery of strategic priorities.</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
<b>Working with partners and other third parties</b>	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities.</li><li>• Commissioning services effectively to support the delivery of strategic priorities.</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

As part of our work, we also:

- reviewed your Annual Governance Statement;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined to be appropriate.

## Risk based work

### VFM risk

#### Description of the risk

The Council faces increased financial pressure following the central government budget spending review in November 2015. Our VFM audit risk as external auditor is if the Council does not update its Medium Term Financial Plan (MTFP) for the latest settlement and our work does not take that into account.

#### How we addressed this risk

We:

- reviewed the Council's MTFP to ensure it has been updated to reflect the funding update from central government issued in November 2015; and
- reviewed the progress the Council has made to achieving savings to date against its plan; in order to gain audit assurance about the robustness of the savings planning processes.

#### Key findings and Conclusion

The Council's annual budget and MTFP is based on expected funding and directorates core budgets, adjusted for expected areas of financial pressures and other priorities. As central funding has been cut and cost pressures have been increased, for example, with social care costs rising as a result of the ageing population, the size of the "budget gap" has steadily increased year on year. The updated MTFP was published in February 2016 as part the 2016/17 budget setting process and our review did not identify any areas where assumptions looked unreasonable, based on the available information at the time. The MTFP did identify a budget gap, and Council agreed to use reserves to fund an element of the budget gap in 2016/17. The remainder, approximately £5 million, was to be achieved through savings and efficiencies.

The main focus for efficiency savings prior to 2015/16 was the "Big Ticket" process, introduced in 2013. The Council has delivered its financial forecast in 2015/16, and this provides some assurance over the robustness of the savings planning process to date.

In late 2015 the Council decided to restructure senior management positions and release resources which could be used to deliver a comprehensive transitional programme. This recognised that while the Council has been successful in identifying savings through more efficient working, it was increasingly likely that a more fundamental review of the services was needed if future savings targets were to be delivered. The new structure was implemented in January 2016, and a Transformation Team was created. The transformation programme is overseen by Corporate Management Team, and has 4 separate work streams, each run by a separate board. Each board has been required to identify specific schemes/projects. There is oversight of the delivery progress by each board and of each scheme identified, including a risk assessment to monitor risk of non/under delivery.

A review of the documentation at the time that we undertook our work (June/July 2016), highlighted that the Council's risk assessment approach had identified potential deliverability and phasing issues for a small number of schemes in 2016/17 and 2017/18.

Our discussions with management found that for the 2016/17 schemes, either alternative plans were being put in place, or the under delivery was being managed through over delivery on other schemes.

We also selected a small sample of schemes and asked for additional information to support progress against plans. Our discussions with officers and review of documentation for these schemes found that they were progressing as had been reported and gave us assurance that monitoring arrangements are operating in practice.



Looking ahead to 2017/18 and beyond, it is clear that the Council has overall arrangements in place to oversee and manage the programme, but as is inevitable, there are schemes in future years where the detail of how savings are to be achieved is being or to be worked through, and as such this remains a key priority for officers.

Based on the work we have carried out, we are satisfied we have mitigated the audit risk we identified for our value for money conclusion.

## **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 2016 and we issued an unqualified VFM conclusion on 28 September 2016.

# 04 Future challenges

## Financial challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to ensure spending is kept within available resources.

The Council has set out its future financial plans in its updated Medium Term Financial Plan, has restructured its management team and continued to review services to identify cost efficiencies. Senior officers are focused on delivery of the savings plans, and this remains high on their agenda. The next few years will see this become harder and harder as the Council faces significant financial pressure from reduced funding and increasing demand for some services.

The Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans. As we have seen in recent years, the Council is exploring different service models to preserve service delivery along with financial stability.

Along with changes internally the Council continues to engage with other partners as devolution develops in the area with the creation of the Tees Valley Combined Authority.

## Other challenges

Strategic objectives are defined in the Council Plan 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 years, including the continuous improvement in services, and ensuring an effective integrated system of health and social care.

## Next year's audit

We will consider your challenges in planning our audit for 2016/17. We will also share with you relevant 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.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes working with officers as they make preparations for transport infrastructure on a fair value accounting basis as required by the accounting Code. This will require significant changes in the 2016/17 statements and we are already working with officers to ensure the required systems are in place.

# 05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 1 March 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit and certification work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee	2015/16 As previously reported	2015/16 Final Fee
Code audit work	£169,010	£126,758	£126,758
Certification work	£25,340	£11,974	£11,974
Non-audit work for certification of grants outside the PSAA regime	£16,850	£4,750	£4,750
Non-audit work – Tax (chargeable as and when required)		£510	£982
Non-audit work – Technical workshop; Transport infrastructure assets		£200	£200
<b>Total</b>	<b>£211,200</b>	<b>£144,192</b>	<b>£144,664</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 Housing Benefit claim.

Non-audit work for certification of grants in the 2015/16 year relates to our work on a number of grant claims and returns for the Council in the year covered by this letter (Teachers pension return £2,750 and Initial Teacher training £2,000). Work programmes and fees for these assignments are agreed separately with the Council.

Non-audit work for Tax relates to ad hoc VAT and tax advice which has been undertaken in the past year (£510 relating to 2015/16 and £472 relating to 2016/17). 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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