

Annual Audit Letter

Stockton-on-Tees Borough Council



Stockton-on-Tees

BOROUGH COUNCIL

For the year ended 31 March 2017



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Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Stockton-on-Tees Borough Council ('the Council') for the year ended 31 March 2017. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Code of Audit Practice issued by the National Audit Office ('the NAO'). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statements opinion	<p>On 26 September 2017 we issued our opinion that:</p> <ul style="list-style-type: none"> the financial statements give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	<p>On 26 September 2017 we issued our opinion that:</p> <ul style="list-style-type: none"> the Narrative Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	<p>On 26 September 2017 we issued our conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.</p>
Whole of Government Accounts	<p>In line with instructions issued by the NAO, on 26 September 2017 we issued our assurance certificate which reported that the Council's consolidation pack was consistent with the audited financial statements.</p>
Matters that we report by exception	<p>We have not identified any matters to report in relation to:</p> <ul style="list-style-type: none"> whether the Annual Governance Statement is in line with our understanding of the Council and the requirements of the Delivering Good Governance in Local Government Framework 2016; reports in the public interest or written recommendations made under s24 of the 2014 Act; exercise of other audit powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 26 September 2017.

Audit of the financial statements

Financial statements opinion

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing for the UK and Ireland (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£8.468 million
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none"> • Senior officer remuneration • Members allowances • Termination benefits
Trivial threshold	£0.254 million

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought.</p>
<p>Valuation of the defined benefit pension scheme and pensions estimates (IAS19)</p> <p>The 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 includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> • evaluated the management controls you have 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>Our work provided the assurance we sought.</p>

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our 2016/17 audit did not identify any significant deficiencies to report.

Value for Money (VFM) conclusion

Value for Money conclusion

Unqualified

Summary of our work

We are required to form a conclusion as to whether the Council 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p><i>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</i></p> <ul style="list-style-type: none"> • Constitution in place which is available on the Council's website. • Council plan in place for the period 2015 to 2018. • Leader's retrospective annual review undertaken. • Management team revised in 2016 to adapt to the Council's future plans. <p><i>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</i></p> <ul style="list-style-type: none"> • No data quality issues in respect of performance information we are aware of. • Regular reporting to TCWG of performance and financial information, including variances. • Medium Term Financial Plan (MTFP) updated at least annually as part of budget setting. Medium term planning undertaken and plans in place; i.e. Council Plan 2015/2018 and MTFP, and which are updated at least annually. Mid-year report to Cabinet also sets out position on MTFP and impact for future years. 	Yes

	<p><i>Reliable and timely financial reporting that supports the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Regular and timely reporting to members. • Council plan on the website. <p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <ul style="list-style-type: none"> • Risk register and risk management arrangements in place. Risks reported to Audit Committee and regular reporting by Internal Audit. • Annual governance statement prepared, reviewed and approved by Members. 	
Sustainable resource deployment	<p><i>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</i></p> <ul style="list-style-type: none"> • Financial and performance reports demonstrate a history of achieving financial targets. • Future need to transform services to reduce costs recognised. • MTFP updated at least annually as part of budget setting and progress monitoring undertaken including achieving savings targets. <p><i>Managing and utilising assets effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Asset register in place and Capital Strategy in place. <p><i>Planning, organising and developing the workforce effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • HR policies and procedures in place. • Sickness information and reports are provided to Corporate Management Team, Human Resources Service Group and Heads of Service. 	Yes
Working with partners and other third parties	<p><i>Working with third parties effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • Examples of partnership working in place to reduce costs and improve service delivery. <p><i>Commissioning services effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Better Care Fund in place with Health and Wellbeing Board having oversight and receiving quarterly updates. Pooled Budget Partnership in place since April 2015. • Council plan in place for the period 2015 to 2018, and on the Council's website. <p><i>Procuring supplies and services effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Council has written procedures for procuring products and services, which are within its Constitution (part 4). 	Yes

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to the VFM conclusion exists. In our Audit Strategy Memorandum, we reported that we had identified one significant VFM risk(s). The work we carried out in relation to significant risks is outlined below.

Value for Money conclusion risk	Work undertaken	Conclusion
<p>Our audit work in previous years has concluded that the Council has robust arrangements in place for Medium Term Financial Planning. The Council continues to face financial pressure in the coming years and the Council is currently updating its medium term financial plan (MTFP).</p> <p>We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>Building on our work in previous years, we:</p> <ul style="list-style-type: none">• reviewed the Council's updated 2017 MTFP to ensure it has been updated to reflect the latest funding position from central government; and• reviewed and updated our knowledge of the arrangements the Council has in place to monitor progress against its savings plans that underpin the MTFP.	<p>Our review of relevant documentation and meetings with relevant key officers provided us with assurance that:</p> <ul style="list-style-type: none">• the 2017 MTFP had been updated for the latest funding position, and that assumptions within the MTFP were not unreasonable; and• the Council continues to closely monitor progress against its savings targets, taking action where considered necessary to ensure that overall the savings programme remains on track.

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts consistency with the financial statements	Consistent
Other information published alongside the financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Council.

We have the power to:

- report in the public interest; and
- make statutory recommendations to the Council, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Council.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Council in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to them whether consolidation data that the Council has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the information in the Narrative Report is consistent with the audited financial statements.

Our fees

Fees for work as the Council's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in February 2017.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£126,758	£126,758
Certification of Housing Benefit Subsidy Claim	£19,005	£19,005
Other non-Code work	~	£12,594

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

Non-audit work includes the following:

- certification of grants relating to the 2016/17 year. This includes a number of grant claims and returns for the Council in the year covered by this letter (Teachers pension return £3,850 and Initial Teacher training £2,000). Work programmes and fees for these assignments are agreed separately with the Council.
- ad hoc VAT and tax advice which has been undertaken in the year covered by this letter, being £6,744 to September 2017.

Future challenges

Financial outlook

The financial challenge for the Council, and others in the wider public sector, is ongoing. There is continued pressure on finances as a result of changes in the funding available from central government alongside growing demand for some services.

The Council manages its finances carefully to balance service needs and available resources in the short and medium term. The Council's most recent Medium Term Financial Plan recognises the ongoing financial constraints and the need to continue to review services to identify cost efficiencies. Senior officers are focused on delivery of the savings plans, and this remains high on their agenda. In addition, the Council is seeking new ways to generate revenue to support services. Other matters such as potential changes to the national business rates arrangements remain a financial risk but, if the local economy grows successfully, may present an opportunity and officers continue to keep the overall position under close review.

Operational challenges

Strategic objectives are defined in the Council Plan which sets out the Council's overall ambitions and priorities 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.

The Council faces a number of other ongoing challenges, including continuous improvement in services and ensuring an effective integrated system of health and social care. The combined, stretching agendas require organisational capacity, and strong governance, risk and project management arrangements.

How we will work with the Council

We will focus our 2017/18 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. We will also share 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 the finance team 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 focus in the coming year will be working with officers to ensure a smooth process to an earlier accounts and audit timetable that will take effect in the 2017/18 financial year.