

**Date:** Monday 25 September 2023 at 4.00 pm

**Venue:** Jim Cooke Conference Suite, Stockton Central Library, Church Road,  
Stockton on Tees TS18 1TU

**Cllr Barry Woodhouse (Chair)**  
**Cllr Stefan Houghton (Vice-Chair)**

Cllr Marc Besford  
Cllr Paul Rowling  
Cllr Mick Stoker  
Cllr Laura Tunney

Cllr Ross Patterson  
Cllr Susan Scott  
Cllr Emily Tate

## **AGENDA**

- |           |   |                 |
|-----------|---|-----------------|
| <b>7</b>  | <b>External Auditor - Audit Certificate 2020/21 - To Follow</b>                               | (Pages 7 - 10)  |
| <b>8</b>  | <b>External Auditor - Follow Up Letter to the Audit Completion Report 2021/22 - To Follow</b> | (Pages 11 - 26) |
| <b>9</b>  | <b>External Auditor - Auditor's Draft Annual Report 2021/22 - To Follow</b>                   | (Pages 27 - 50) |
| <b>10</b> | <b>External Auditor - Audit Strategy Memorandum 2022/23 - To Follow</b>                       | (Pages 51 - 86) |

**Members of the Public - Rights to Attend Meeting**

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting, including the opportunities available for any member of the public to speak at the meeting; or for details of access to the meeting for disabled people, please

Contact: John Devine, Democratic Services Officer on email [john.devine@stockton.gov.uk](mailto:john.devine@stockton.gov.uk)

**KEY - Declarable interests are:-**

- Disclosable Pecuniary Interests (DPI's)
- Other Registerable Interests (ORI's)
- Non Registerable Interests (NRI's)

**Members – Declaration of Interest Guidance**



**Table 1 - Disclosable Pecuniary Interests**

Subject	Description
<b>Employment, office, trade, profession or vocation</b>	Any employment, office, trade, profession or vocation carried on for profit or gain
<b>Sponsorship</b>	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
<b>Contracts</b>	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
<b>Land and property</b>	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
<b>Licences</b>	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer.
<b>Corporate tenancies</b>	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
<b>Securities</b>	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.

\* 'director' includes a member of the committee of management of an industrial and provident society.

\* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

## Table 2 – Other Registerable Interest

You must register as an Other Registrable Interest:

- a) any unpaid directorships
- b) any body of which you are a member or are in a position of general control or management and to which you are nominated or appointed by your authority
- c) any body
  - (i) exercising functions of a public nature
  - (ii) directed to charitable purposes or
  - (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management

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15 September 2023

Dear Mr Cummings

## **Stockton-on-Tees Borough Council - Issue of Audit Certificate on the Statement of Accounts 2020/21**

We are pleased to attach our signed Audit Certificate for the 2020/21 financial year which formally concludes the 2020/21 audit.

There was a substantial delay in the issue of the Audit Certificate due to us awaiting confirmation from the National Audit Office (NAO) that the Council would not be selected for additional WGA work as a sampled component. We have now received the confirmation awaited from NAO, and I am delighted to attach our audit certificate dated today.

On 7 December 2021, following approval and certification of the 2020/21 financial statements by the Audit and Governance Committee we issued our Independent Auditor's Report in relation to the accounts for the year ended 31 March 2021. The audit opinion was unqualified.

At that point, we had not yet completed our other areas of work.

We subsequently issued our commentary on Value for Money (VFM) arrangements in our Auditor's Annual Report 2020/21 on 28 January 2022. We did not identify any significant weaknesses or recommendations in relation to the Council's VFM arrangements.

—  
We issued our report on WGA to NAO on 18 December 2022, following a delay in the issue of group audit instructions for this work by NAO.

As the audit certificate has been issued you are now able to issue the notice required by Regulation 16 of the Accounts and Audit (England) Regulations 2015.

Under Regulation 10 of the Accounts and Audit (England) Regulations 2015 you published on your website:

- the statement of accounts together with any certificate or opinion entered by the local auditor in accordance with section 20(2) of the Act;

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- the annual governance statement approved in accordance with regulation 6(3); and
- the narrative statement prepared in accordance with regulation 8.

You also provided a notice of explanation for the delay in the issue of the Audit Certificate.

**You will now be able to publish the attached Audit Certificate for 2020/21 alongside the 2020/21 financial statements and with the Notice you are now required to publish under Regulation 16.**

For the avoidance of doubt, the Independent Auditor's Report for the year ended 31 March 2021 comprises the report issued on 7 December 2021 and incorporated into your financial statements and the Audit Certificate issued today.

Following guidance issued to auditors by the National Audit Office, it is now our policy that our signed audit report should be published as part of the publication of your financial statements on your website.

We have provided you with a copy of the financial statements for the year ended 31 March 2021 including our report on those statements. We outline below your responsibilities in respect of the use of our report.

Please ensure that:

- you only publish the financial statements accompanied by our report on those statements;
- you only publish the financial statements accompanied by any 'other information' provided to us before we issued our report and specifically referred to in our report; and
- you do not publish the financial statements accompanied by any other information not provided to us prior to issuing our report.

Please note that:

- the examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and we cannot be held responsible for changes made to audited information after the initial publication of the financial statements and our report; and
- where you wish to publish or distribute the financial statements electronically, you are responsible for ensuring that the publication accurately presents the financial statements and our report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods.

Please feel free to contact me if you like clarification on any point. Thank you again to you and your team for the support and cooperation in enabling us to complete the audit of the financial statements in the difficult circumstances this year.

Yours sincerely

*Gavin Barker*

Gavin Barker  
Director



# **Audit Completion Certificate issued to the Members of Stockton-on-Tees Borough Council for the year ended 31 March 2021**

In our auditor's report dated 7 December 2021 we explained that the audit could not be formally concluded until we had 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 had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This work has now been completed.

No matters have come to our attention since 7 December 2021 that would have a material impact on the financial statements on which we gave our unqualified opinion.

## **The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required to report to you if, in our opinion, 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.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have nothing to report in this respect.

## **Certificate**

We certify that we have completed the audit of Stockton-on-Tees Borough Council and Group for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Gavin Barker  
Key Audit Partner  
For and on behalf of Mazars LLP

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15 September 2023

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21 September 2023

Dear Members

## Update/conclusion of pending matters– Audit Completion Report

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 16 November 2022, and including any other matters arising since that date.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Pensions	<p>We reported in November 2022 that we were unable to complete our work on pensions as we were waiting for assurances from the pension fund auditor. These would normally have been expected to be received by the end of November 2022.</p> <p>We actually received the assurance letter from the pension fund auditor on 22 March 2023. Their letter identified an overstatement of assets, though this was not material.</p> <p>However, an additional issue arose in relation to the triennial revaluation of the Teesside Pension Fund at 31 March 2022.</p> <p>Each year, employers within the Local Government Pension Scheme (LGPS) receive an actuarial accounting report prepared in accordance with IAS19 Employee Benefits (IAS19</p>	<p>We are following up on apparent significant discrepancies identified in the PF auditor letter on the results of triennial membership data testing.</p>

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Matter	Update/conclusion reached	Status
	<p>report). The report sets out the movement in the employer's interest in the LGPS assets and liabilities during the year, and their share of assets and liabilities at the year end.</p> <p>IAS19 pension liabilities are prepared by rolling forward data collected for the most recently completed actuarial funding revaluation (triennial revaluation, ie. undertaken once every 3 years) and updating for significant changes to membership, cashflows, and updated actuarial assumptions. The 2021/22 IAS19 reports received by LGPS employers for inclusion in the draft 2021/22 financial statements were prepared using data collected for the 2019 triennial valuation, rolled forward by 2 years, as the 2022 triennial valuation was not complete at the time of preparing the draft 2021/22 financial statements.</p> <p>Due to the delays in the issue of some local authority opinions (many March 2021/22 financial statement audits had not been completed at 31 March 2023), the 31 March 2022 triennial revaluation reports, which take about a year to prepare, had been finalised.</p> <p>The completed triennial revaluation at 31 March 2022 provided evidence of conditions that existed at 31 March 2022 and, in accordance with IAS10 Events after the Reporting Period, audited bodies were asked to consider whether this was an adjusting event. Our view was that this was an adjusting event after the balance sheet date, where the impact was likely to be material.</p> <p>The Council decided that this was likely to have a material impact on the IAS19 pension liability at 31 March 2022, and therefore obtained an updated IAS19 Report from the Actuary and amended the 2021/22 accounts.</p> <p>The adjusted misstatement is in the updated Summary of Misstatements in Appendix 1.</p> <p>For us to consider the amendments made to the financial statements to reflect the triennial revaluation exercise, we carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• Agreed the changes in the revised IAS19 report to the revised financial statements;</li> <li>• Reviewed the updated assumptions used by the actuary in the updated IAS19 report; a national report prepared by PWC assisted with our consideration of any changes in assumptions; and</li> </ul>	<p>We are following up on apparent significant discrepancies identified in the PF auditor letter on the results of triennial membership data testing.</p>

Matter	Update/conclusion reached	Status
	<ul style="list-style-type: none"> <li>• Asked the Pension Fund auditor to carry out testing of the membership data provided by the Pension Fund to the actuary for the triennial revaluation exercise, to ensure that it was supported by the data in the Pension Fund’s systems.</li> </ul> <p>We completed our work without any other issues arising.</p> <p>We received a response from the Pension Fund auditor on 11 September 2023. Unfortunately, their letter highlighted a number of apparent significant discrepancies in the data. The Pension Fund auditor indicated to us that they did not intend to carry out any further work to investigate or resolve the apparent significant discrepancies.</p> <p>We therefore informed the Pension Fund auditor that we needed to follow up these issues ourselves, even though the Pension Fund and its lead authority, Middlesbrough Council, is not one of our audits.</p> <p>We are currently in the process of following these issues up. We are grateful to Middlesbrough Council and the Pension Fund, as they have confirmed that they understand the importance of following up on the issues raised and have offered us their full co-operation.</p>	<p>We are following up on apparent significant discrepancies identified in the PF auditor letter on the results of triennial membership data testing.</p>
Infrastructure	<p>As the Council is aware, there has been a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances.</p> <p>The issue identified that there was insufficiently detailed information available to allow local authorities to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components.</p> <p>Members should note that this issue was entirely technical in nature and it did not impact on the resources available to the Council or the level of usable reserves held by the Council.</p> <p>A statutory override was put in place by Government to address the information deficits and CIPFA guidance was issued to allow authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements. The statutory override made it clear that</p>	<p>Complete – also see Internal Control section below</p>

Matter	Update/conclusion reached	Status
	<p>adjustments were not required to previous infrastructure balances even where errors may have existed.</p> <p>The Council has adopted the statutory override in full. The Council also made amendments to the disclosures about infrastructure in the financial statements, as required by the guidance, but the figures relating to infrastructure have not been amended.</p> <p>As part of our review of the Council’s application of CIPFA’s “Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)”, we considered the Council’s asset lives per its accounting policies for infrastructure assets.</p> <p>We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the “UK Roads Leadership Group Asset Management Board”. The guidance includes a range of “reasonable useful lives” for different parts of the highways network which we compared to those applied by the Council.</p> <p>As part of our work, we completed a sensitivity analysis to estimate the impact on in-year depreciation using the Council’s existing asset lives compared to the reasonable asset lives provided in the CIPFA guidance. This test was completed to gain assurance that depreciation in 2021/22 is materially accurate when compared to depreciation calculated using CIPFA’s reasonable useful lives.</p> <p>Following completion of our work, we are satisfied that the Council has followed the relevant guidance when reviewing its infrastructure assets and has made the required disclosures in the financial statements.</p> <p>Our review highlighted a number of differences between the useful economic lives of some assets against those set out by CIPFA. However, we are satisfied that this does not have a material impact on the financial statements for 2021/22.</p> <p>From our analysis, we estimated that the maximum impact on in-year depreciation would be £2.9m, and this would be a net increase in depreciation. We have reported this as an unadjusted misstatement in Appendix 1.</p> <p>In the context of the Council’s total depreciation of infrastructure of £9.1m, and a net book value for infrastructure of £175.086m, the potential understatement of depreciation of £2.9m is not material in both qualitative and quantitative terms.</p>	<p>Complete – also see Internal Control section below</p>

Matter	Update/conclusion reached	Status
	<p>The Council has carried out its own analysis and plans to complete a review of useful economic lives when producing the 2022/23 financial statements.</p> <p>We support this planned approach by officers, and we have made an internal control recommendation in relation to this as set in the next section of this letter.</p>	Complete – also see Internal Control section below
Post balance sheet events	We will discuss subsequent events with management and review available post balance sheet information at the point we sign off. There are no issues arising at the point of drafting this letter.	This will be completed at the point we are ready to issue our audit opinion
Audit closure	We are awaiting the final version of the financial statements. Once received we will undertake our final closure procedures including a review of the management representation letter and post balance sheet events.	This will be completed at the point we are ready to issue our audit opinion

### 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 findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0

<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

## Description of deficiency – Infrastructure Assets Useful Economic Lives – Level 2

As part of our review of the Council's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)" we considered the Council's asset lives as disclosed in its accounting policies and notes to the accounts.

We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the "UK Roads Leadership Group Asset Management Board". This guidance includes a range of reasonable useful lives for different parts of the highways network which we compared to those applied by the Council.

Our review highlighted a number of differences between the useful economic lives of some assets against those set out by CIPFA. However, we are satisfied that this does not have a material impact on the financial statements for 2021/22.

### Potential effects

Infrastructure asset lives may not be based on up-to-date information and may not accurately reflect the remaining life of the asset. This could result in depreciation being misstated, both in year and cumulatively in the future. In addition, it is important that asset lives are accurate to support the Council's Asset Management Plans.

### Recommendation

While our work has not highlighted a material difference when applying the current assets lives, we recommend that the Council reviews and benchmarks its infrastructure asset lives for 2022/23 onwards by considering data provided by CIPFA and any other data identified by the Council, to ensure asset lives reflect sector standards and all relevant information. Where differences are not justified, the Council should make changes to asset lives and hence depreciation as part of its annual review of infrastructure. If management's assessment significantly diverges from the range provided by CIPFA, and does not wish to change the asset lives, management should clearly document and provide relevant data to substantiate the rationale for this difference.

### Management comments

Agreed.



## Reclassification of the hotel from operational to investment property in group accounts



The Council originally reclassified the value of the hotel in the Group financial statements from investment property to operational property. As the hotel company is not significant to the Group as a whole, the Group treatment should be the same as the Council. This resulted in a change to the Group balance sheet and notes and required the restatement of the opening balance sheet as detailed in Appendix 1.

### Status of our audit work

At the time of preparing this update letter, we still anticipate being able to issue an unqualified audit opinion, without modification, on the financial statements. We plan to issue our opinion when the financial statements have been approved and signed by the Audit and Governance Committee, and when we have fully followed up on and addressed the apparent significant discrepancies reported to us in the Pension Fund auditor's letter.

We will issue a further follow up letter at the point of signing our audit report.

At the time of preparing this update letter, the following matters remains outstanding, which as we have explained will be reported at a later date:

Audit area	Status	Description of outstanding matters
Value for money commentary		We have completed our work in respect of the Council's arrangements for the year ended 31 March 2022 and the DRAFT Auditor's Annual Report is on the agenda for the September Audit and Governance Committee meeting setting out our value for money commentary. We will issue the final Auditor's Annual Report once the audit opinion has been issued.
Whole of Government Accounts (WGA)		<p>We submitted the 2020/21 WGA return but were unable to issue our audit certificate formally closing the 2020/21 audit until the National Audit Office informed us whether additional procedures were required.</p> <p>We have now received instructions from the NAO that additional procedures are not required and therefore we have issued our 2020/21 audit certificate. This is also included on the agenda for the September 2023 Audit and Governance Committee.</p> <p>We are unable to report on WGA for 2021/22 until we issue our 2021/22 audit opinion. We will issue the 2021/22 WGA return to the NAO as soon as we have issued our audit report.</p> <p>However, we cannot issue our audit certificate for 2021/22 until we have received NAO clearance that additional procedures are not required. NAO plans to report on 2021/22 WGA by the end of March</p>

Audit area	Status	Description of outstanding matters
		2024. We therefore expect to be able to issue our 2021/22 audit certificate about this time.

#### Status

- 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

Our draft Audit Report is shown in Appendix 2. This highlights in red any changes from the previous version included in our Audit Completion Report. The main change is that we can now report in our audit opinion that we have completed our value for money work for the year ended 31 March 2022. We can confirm that we have no significant weaknesses or recommendations to make as a result of our work.

We will issue a further follow up letter at the point of signing our audit report.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

*Gavin Barker*

**Gavin Barker**  
Director

## APPENDIX 1 SUMMARY OF MISSTATEMENTS

(Changes since we issued our Audit Completion Report are highlighted in red.)

### Unadjusted misstatements – Council

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Loss on disposal 645 Cr: Depreciation Cr: Property, plant and equipment		-23		- 622
<p>Preston primary school moved to an Academy school on 01/04/2021 and therefore should have been treated as an in-year disposal. NBV as at 31/03/2022 is £622k. PPE overstated and loss on disposal understated. Balance as at 01/04/2021 was £644k - difference is £23k over charge of in-year depreciation.</p>					
3	Dr: Land and buildings Cr: CIES Depreciation		-2,902	2,902	
<p>Potential overstatement of depreciation on infrastructure assets in the financial statements based on a comparison of actual depreciation against depreciation that would have been charged based on CIPFA ranges of useful asset lives. Management has determined not to amend the financial statements because this adjustment is not material.</p>					
Total unadjusted misstatements		645	-2,925	2,902	-622

### Unadjusted disclosures

During our audit we identified the following disclosure misstatements which have not been adjusted by management:

- Note 18 long-term liabilities, includes total additions, some of which should be classified as short-term.
- Note 24 Dedicated schools grant does not include comparators, this is in line with the pro forma disclosure notes in the CIPFA guidance but against the overriding principal of the CIPFA Code to include comparators for all disclosures unless scoped out.

### Adjusted misstatements – Council

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: Pension Liability			38,318	
	Cr: Pension Asset				-38,318
	Cr: Movement in Reserves Statement adjustment	38,318			
	Dr: Other Comprehensive Income		-38,318		
This reflects the adjustment from recalculating pension disclosures using an updated IAS19 report from the actuary, which takes into account the results of the triennial revaluation at 31 March 2022					
Total adjusted misstatements		38,318	-38,318	38,318	-38,318

## Adjusted misstatements - Group

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, plant and equipment Cr: Investment property Reclassification of the hotel from operational to investment property in group accounts.			10,802	-10,802
Total adjusted misstatements				10,802	-10,802

## Disclosure amendments

During our audit we identified some adjustments to the disclosures in the accounts. These have been adjusted by management and include:

- Note 4 critical judgements, reviewed and updated.
- Note 7 earmarked reserves, adjustment of £18m to transfers in and transfers out, has no net impact on reserves as a whole.
- Note 11 property, plant and equipment, note updated to correct accounting treatment of Durham Lane purchase and disclosure of assets held under finance lease. Additional information added in relation to valuations.
- Note 13 investment properties, disclosure updated to show disposals separately.
- Note 15 debtors, classification of rent allowances corrected.
- Note 28 grant income, classification of s31 grant corrected.
- Note 29 financial instruments, wording updated.
- Note 31 defined benefit pension schemes, significant assumptions updated.
- Note 32 exit packages, some packages had been included in the wrong year, amended.
- Note 33 provisions, movements in year added.
- Note 34 contingent liabilities, wording updated.
- Note 38 accounting policies, additional policy for revenue recognition added.
- Various other minor presentational and typographical adjustments.

**Independent auditor’s report to 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 Council (the Council) and its subsidiaries (the Group) for the year ended 31 March 2022, 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 Council Accounting in the United Kingdom 2021/22 **as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022.**

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and Group as at 31<sup>st</sup> March 2022 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 Council Accounting in the United Kingdom 2021/22 **as amended by the Code Update.**

**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 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 Regeneration and Deputy Chief Executive’s 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 and Group’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 Regeneration and Deputy Chief Executive with respect to going concern are described in the relevant sections of this report.

**Other information**

The Director of Finance, Development and Regeneration and Deputy Chief Executive is responsible for the other information. The other information comprises the Annual Governance Statement and 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 Regeneration and Deputy Chief Executive for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance, Development and Regeneration and Deputy Chief Executive 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 Council Accounting in the United Kingdom 2021/22 **as amended by the Code Update**, and for being satisfied that they give a true and fair view. The Director of Finance, Development and Regeneration and Deputy Chief Executive is also responsible for such internal control as the Director of Finance, Development and Regeneration and Deputy Chief Executive 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 Regeneration and Deputy Chief Executive is required to comply with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22 **as amended by the Code Update** 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 Regeneration and Deputy Chief Executive is responsible for assessing each year whether or not it is appropriate for the Council 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.

We evaluated the Director of Finance, Development and Regeneration and Deputy Chief Executive's 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 Regeneration and Deputy Chief Executive's 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 September 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 the 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 2022.

~~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 December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.~~

~~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.~~

~~We have nothing to report in this respect.~~

### **Responsibilities of the Council**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the 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 the 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 the 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 December 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 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 Stockton-on-Tees Borough 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 Stockton-on-Tees Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have **completed**:

- **completed** the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack **for the year ended 31 March 2022.;** ~~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: *[to be confirmed]*

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# Auditor's Annual Report **DRAFT**

Stockton-on-Tees Borough Council  
– year ended 31 March 2022

September 2023



- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' 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. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# 01

## Section 01: **Introduction**

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Stockton-on-Tees Borough Council ('the Council') for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders. **This is a DRAFT report, as we have not yet issued our audit opinion. The report will be finalised when we issue our audit opinion, anticipated in September / October 2023.**

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on **XX September / October 2023**. Our opinion on the financial statements was unqualified. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to following up the issues raised in the pension fund auditor assurance letter in relation to the testing of triennial review membership data.]**



### Wider reporting responsibilities

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. No such correspondence from electors has been received.



### Value for Money arrangements

In our audit report issued **[not yet issued]** we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



### Whole of Government Accounts (WGA)

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. **We are unable to respond to NAO until we have issued our audit opinion [not yet issued]**. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 02

Section 02:

**Audit of the financial statements**

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on **XX September / October 2023** gave an unqualified opinion on the financial statements for the year ended 31 March 2022. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to following up the issues raised in the pension fund auditor assurance letter in relation to the testing of triennial review membership data.]**

## Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 11 July 2022, in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by high quality working papers and we received full cooperation from the Finance team in responding to our queries on a prompt basis.

## Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

The completion of the audit was initially delayed for two reasons, neither of which was under the control of management or the audit team:

- **Pension fund assurance letter** – this was not received from the auditor of the Teesside Pension Fund until 22 March 2023; and
- **Infrastructure** – guidance was issued by CIPFA on 11 January 2023 which set out how authorities should address the technical issues that had arisen in relation to accounting for infrastructure and how the statutory override that had been put in place by Government in December 2022 should be addressed. This impacted on the Council having the information needed to respond to this issue, and then our work followed on from this.

In the event, the Pension Fund Auditor letter was not received until 22 March 2023. It is very unusual to receive these assurances as late as this. There were no material issues arising from the Pension Fund auditor's work to impact on the 2021/22 financial statements.

However, as a result of the long delay, new information was now available to update the pension disclosures in the financial statements in that the triennial revaluation of Teesside Pension Fund as at 31 March 2022 was now completed, and needed to be reflected in the 2021/22 financial statements. This required the Council to obtain an updated report from the actuary, and we needed to carry out some additional procedures, including requiring the Pension Fund auditor to test the membership data used in the triennial revaluation and report to us on the results of their testing.

The Pension Fund auditor reported to us on 11 September 2023, but there were a number of issues that we had to follow up on. We issued our unqualified audit opinion on **XX September / October 2023**. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to following up the issues raised in the pension fund auditor assurance letter in relation to the testing of triennial review membership data.]**



# 03

Section 03:

**Commentary on VFM arrangements**

### 3 Commentary on VFM arrangements

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#### Overall summary



# 3 VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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 there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

There are no significant weaknesses to report.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

# 3 VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	No	No	No
 <b>Governance</b>	14	No	No	No
 <b>Improving economy, efficiency and effectiveness</b>	17	No	No	No

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# 3 Commentary on VFM arrangements

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## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# 3 VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council has an established process for developing its Medium Term Financial Plan (MTFP). The Council's arrangements have delivered significant levels of savings in recent years. We considered the timetable for the MTFP and confirmed that it allows for early engagement with stakeholders. We confirmed the MTFP is revisited on a regular basis and adjusted to reflect any changes impacting on the Council's financial position such as changes in economic outlook and changes in central government funding. During the latter part of 2021/22 the impact of inflationary pressures was starting to emerge. A particular example being that of energy and fuel. Additional funding was allocated in the 2022/23 Budget and MTFP for this and for projected pay award pressures.

We confirmed that there is regular budget monitoring including quarterly reports to the Council's Cabinet. The outturn report for 2021/22 was presented to the July Cabinet meeting and the overall reported position was not significantly different to that reported during the financial year and records departmental overspends of £2.4 million compared with the budget. This position is associated with continued pressures in Children's Services which are mainly the result of increased costs of external residential care placements for children in the Council's care. The report notes the Council's financial position was supported by the Government Covid Support grant and the final instalment of the Covid sales, fees and charges income compensation scheme. Other pressures included a continued national pressure in respect of special education needs but despite these factors the report notes that:

'Overall there is an improvement in the draft outturn 2021/22 financial position compared to that projected at December of around £1.4m'.

This is evidence of the effectiveness of financial management arrangements despite the continued pressures created by the pandemic.

### How the Council plans to bridge funding gaps and identifies achievable savings

The MTFP arrangements include the identification of pressures and savings. The February 2022 MTFP details

estimated pressures over the life of the MTFP totalling £16.6 million over the 2022/23 to 2025/26 period. After adoption of the social care levy for 2022/23 the Council set a balanced budget for the year and pressures reduced to £3.7 million for 2023/24 to 2025/26. The Council has a good track record of identifying and delivering savings.

The MTFP recognises the increasing difficulty of identifying savings and managing the impact on front line services especially given the uncertainty about future funding levels. Our review of the MTFP and associated assumptions identified no evidence of a significant weakness in arrangements.

### How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council developed a refreshed three year Council Plan which was agreed by Cabinet in February 2022. This sets out the Council's contribution to delivering the vision of a place where people are healthy, safe and protected from harm, a place that is clean, vibrant and attractive and a place with a thriving economy where everyone has opportunities to succeed.

We confirmed that the MTFP was developed on reasonable assumptions including forecast funding streams, identification of budget pressures and savings targets required and ability to draw from the budget support reserves if required. The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. In-year monitoring reports detail the pressures faced by the Council, whether savings are being achieved, and if resources need to be redirected to areas in need.

Our review of the MTFP did not identify a reliance on 'one-off' measures to balance the budget. The assumptions in the MTFP and recent outturn against budget confirms the Council has a track record of prudent assumptions in the MTFP.

Our work did not identify any evidence to indicate a significant weakness in arrangements

# 3 VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### How the Council ensures that its financial plan is consistent with other plans

The MTFP and Capital Programme are considered and reviewed in the context of other plans such as the Capital, Investment and Treasury Management Strategies and the Annual Pay Statement. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year.

Other operational planning and its impact on the MTFP is also considered, together with the impact of working with other public bodies.

In line with the Prudential Code and the Council's Capital Strategy, revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process to ensure such investments are fully funded. A detailed Capital plan is included in the MTFP.

The Cabinet and Council consider the updated financial position at various stages throughout the year and allow for Member scrutiny and challenge. The latest MTFP update was considered by the Cabinet and Council at their February 2022 budget setting meetings.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being risk assessed for impact on communities and service delivery. Each saving proposal includes an equality impact assessment. We have considered this in current and prior year savings process with no significant changes in the process noted.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2021/22 to ensure funding set aside remains in line with strategic and statutory priorities of the Council. This is evidenced in the outturn reports presented to Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### How the Council identifies and manages risks to financial resilience

The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the Plan. The 2022/23 MTFP details risks associated with future funding and the ongoing economic uncertainty created by COVID-19. We confirmed that areas of pressure faced in the 2021/22 financial year are reflected in the 2022/23 MTFP. These include the demand pressures faced in some services provided by the Council, such as looked after

children. Despite these uncertainties the 2022/23 MTFP still includes continued investments across a number of key front line service areas, including continued town centre investment in Thornaby, Stockton and Billingham.

During the latter part of 2021/22 the impact of inflationary pressures was starting to emerge. A particular example being that of energy and fuel. For energy the Council used information from the regional purchasing organisation, NEPO, to project costs for the year 2022/23 and into the MTFP. This information provided the basis for the additional resources that were agreed as part of the 2022/23 Budget and MTFP.

The Council has an established risk management framework and the Audit and Governance Committee receives regular risk management updates.

We confirmed that management reported to Cabinet on the Council's commercial activities, including the hotel as part of the updated MTFP in February 2022.

There was regular reporting of the Council's 2021/22 financial position to Cabinet throughout the year. The outturn report presented to the July 2022 Cabinet meeting was consistent with the financial position reported during the year, after including the impact of additional COVID-19 funding, and did not indicate a weakness in the Council's budget monitoring and reporting arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the financial sustainability reporting criteria.

# 3 Commentary on VFM arrangements

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## Governance

How the body ensures that it makes informed decisions and properly manages its risks





# 3 VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an active internal audit team and the Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Audit and Governance Committee. As detailed in the plan the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommend actions, when required, to strengthen processes or procedures. These are regularly reported to Audit and Governance Committee which holds management to account where weaknesses are identified. The Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit Opinion was presented to the Audit and Governance Committee meeting in May 2022. This provides the opinion that 'the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time'. We have reviewed the Internal Audit Plan and matters arising. We have identified no evidence of a significant weakness in arrangements.

An anti-fraud and corruption strategy is in place and was updated and reported to the November 2022 Committee, we confirmed there is also regular reporting to the Audit and Governance Committee on counter fraud activities, including fraud investigations.

As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

### How the Council approaches and carries out its annual budget setting process

The Council's MTFP arrangements include the identification and evaluation of risks to the Council's finances. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

### How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We have reviewed Cabinet minutes and confirmed there was regular reporting of the financial position during 2021/22 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year, after taking account of additional COVID-19 grants, and did not indicate a significant weakness in arrangements. As well as being reported to Senior Management Team and Cabinet, reports are also presented to Executive Scrutiny Committee.

The Council has a good record of delivering against its budgets and this is evidence of effective arrangements for budgetary control.

The financial statements timetable is approved by the Audit and Governance Committee and was delivered in 2021/22. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

# 3 VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

Decisions are made in accordance with the Constitution and Scheme of Delegation.

We have reviewed Council minutes in the year and have not identified any evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Service Select Committee meetings provide an opportunity to challenge decisions. An Executive Scrutiny Committee is in place to oversee and coordinate the work and our review identified no matters that indicate a significant weakness in arrangements.

### How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts also records material related party transactions and details of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. Our work did not indicate a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Panel is responsible for promoting and maintaining high standards of conduct by Members. It is responsible for advising and arranging relevant training relating to the requirements of the Code of Conduct. The Standards Panel has not met recently which indicates there has not been any member misconduct to investigate.

A system of scrutiny is in place as set out and documented in the Annual Governance Statement. We reviewed the Scrutiny Annual Report for 2021/22 and identified no evidence of a significant weakness in arrangements.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2021/22 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a significant weakness in arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the governance reporting criteria.

# 3 Commentary on VFM arrangements

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## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# 3 VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

### How financial and performance information has been used to assess performance to identify areas for improvement

Directorates have well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement.

The Council has a performance management framework, reporting against a series of indicators. Corporate performance against key performance indicators is presented to Cabinet on a six monthly basis. Our review of those reports identified no evidence of a significant weakness in arrangements.

Service reviews have also been used to identify areas for improvement and to deliver agreed changes. For example, Children’s Services was identified as an area for improvement following an Ofsted inspection report published in July 2019 (requires improvement to be good) with specific issues identified around delays for some children in their assessed needs being met.

The Council Plan includes priorities in relation to children’s care and helping families to stay together and monitors the rate of children in care as a specific performance measure. More detailed monitoring of the number of contacts and care plans with families are monitored by the service (including initial enquiries, rate of referrals, rate of assessments complete, etc). Detailed evidence of monitoring and actions is available from the monthly tactical operational performance (TOP) meetings.

The Council’s financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and equality impact assessments.

### How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Cabinet has monitored performance during the year. Performance is measured against the Council Plan and the format of reports is aligned to the vision and hopes for the Borough. In 2021/22 the six monthly report tracked performance against the Council Plan priority actions and included a detailed commentary on progress.

Assessment by service regulators was limited in the 2021/22 year as a result of the COVID-19 pandemic but the Council has arrangements for responding to the most recent Ofsted inspection of Children’s Services, as detailed above.

### How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council ensures that it is represented at a senior level in its key partnerships, such as partnerships with health. For example, the Council has a well-established and successful partnership with Health via the Better Care Fund. The Council is represented from a service perspective by the relevant Director and from a financial perspective by the Director of Finance, Development and Regeneration and Deputy Chief Executive. The Strategic Finance lead for Adults and Health provides regular support and input. Where necessary key required actions will be incorporated into Council planning, priorities and plans.

In addition, the Council is working in partnership with Keepmoat Homes Limited to deliver the redevelopment on the Victoria Estate in Stockton. The scheme runs under a collaborative agreement and is overseen by a Project Board. The Board comprises two officers of the Council and two representatives from Keepmoat, the Board is now well established and is operating successfully.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. The impact of the pandemic saw an increase in the use of Council on-line services.

# 3 VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

**How the Council commissions or procures services, how the Council ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits**

Key commissioning and procurement decisions are taken by suitably skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

The Council operate a Strategic Procurement function across two teams, each supporting a specific range of Council services and functions.

As a response to the pandemic, the Council established a new brokerage function for Adult Social Care packages to match needs to available services and ensure adults got the most appropriate care. This has now been extended to Children's care packages to focus on finding, placing and maintaining young people in the best education, employment or training setting.

There is evidence that the Council has arrangements in place to ensure procurement is done in accordance with relevant legislation, professional standards and internal policies, no issues identified that suggest a significant weakness.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4 Other reporting responsibilities and our fees

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power 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 the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

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. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. **We are unable to respond to NAO until we have issued our audit opinion [not yet issued]**. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 4 Other reporting responsibilities and our fees

## Fees for work as the Council’s auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in April 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:.

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice (2021/22 scale fee now includes group fees, with a small rounding difference)	£97,604	£100,824
Additional fees in respect of group consolidation (recurring)	£3,228	£0
Increases arising from regulatory pressures (as reported in the 2019/20 audit; in 2021/22 we increased this fee by 25% to reflect a 25% increase in the PSAA fee rates for this work)	£15,128	£18,910
Additional fees in respect of the new VFM approach (recurring, as agreed from the 2020/21 audit)	£10,000	£10,000
Additional fees in respect of new ISA540 requirements, estimates (recurring, as agreed from the 2020/21 audit)	£4,400	£4,400
Additional fees in respect of the Council’s infrastructure (additional work required in relation to the national issue in this year’s audit – not recurring)	£nil	£10,000
Additional fees in respect of the issues with Pension Fund Auditor assurance, the updating of accounts for triennial pensions, and follow up of the PF auditor’s letter – not recurring – Note: These fees are estimated at this stage	£nil	£7,000
<b>Total fees</b>	<b>£130,360</b>	<b>£151,134</b>



# 4 Other reporting responsibilities and our fees

## Fees for other work

In 2021/22 the Council has engaged Mazars LLP for the following audit related assurance services:

- Housing Benefit assurance - £12,287 plus VAT (£11,170 in 2020/21); and
- Teachers' Pensions assurance - £4,895 plus VAT (£4,450 in 2020/21).

Gavin Barker, Director –Public and Social Sector

[gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)

## **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.

# Audit Strategy Memorandum

Stockton-on-Tees Borough Council

Year ended 31 March 2023



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- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Value for money
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements

**Appendix A** Key communication points

**Appendix B** Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Stockton-on-Tees Borough Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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

18 September 2023

Dear Audit and Governance Committee Members

## Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Stockton-on-Tees Borough Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Redcar and Cleveland Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit, and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully



Gavin Barker

Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

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# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1 Engagement and responsibilities summary

## Overview

We are appointed to perform the external audit of Stockton-on-Tees Borough Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Director of Finance, Development and Regeneration and Deputy Chief Executive is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding and conclude on a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Director of Finance, Development and Regeneration and Deputy Chief Executive's use of the going concern basis of accounting in the preparation of the financial statements.



### Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and include internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



### Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

# 02

Section 02:

**Your audit engagement team**



# 2 Your audit engagement team



**Gavin Barker**

**Director**

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0191 383 6300



**Cath Andrew**

**Senior Manager**

[cath.andrew@mazars.co.uk](mailto:cath.andrew@mazars.co.uk)

0191 383 6300



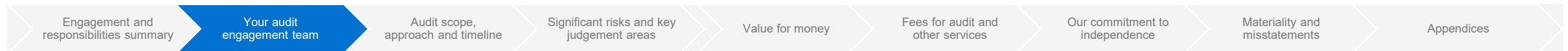
**David Hurworth**

**Assistant Manager**

[david.hurworth@mazars.co.uk](mailto:david.hurworth@mazars.co.uk)

0191 383 6300

In addition, an engagement quality reviewer has been appointed for this engagement.



# 03

Section 03:

**Audit scope, approach and timeline**

# 3 Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place, then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

# 3 Audit scope, approach and timeline

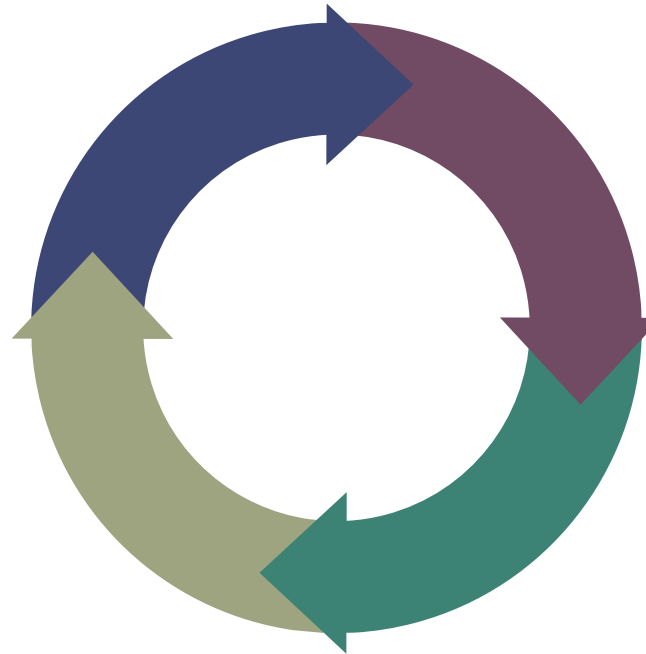
## Planning and Risk Assessment - April to July

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

## Completion – October \*

- Final review and disclosure checklist of financial statements
- Final engagement lead and engagement quality control reviewer review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the independent auditor's report

\* Subject to receipt of Pension Fund auditor assurance



## Interim - April to July

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork - July to October

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

# 3 Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability and asset	Actuary (Hymans Robertson)	NAO’s consulting actuary (PWC)
Property, plant and equipment valuation	Internal valuer from the Council and external valuers for specific assets where required (District Valuer Service, HVS and Knight Frank)	In-house Mazars valuation team, where needed
Financial instrument disclosures	Arlingclose	Not applicable

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

We have not identified any service organisations which impact on the production on the financial statements which have an impact on our audit.

# 3 Audit scope, approach and timeline

## Group audit approach

We are responsible for the audit of the group financial statements, which consolidate the Council's single entity accounts with the components of Stockton Borough Holding Company Limited and Stockton Hotels Company Limited. In 2022/23, the component transactions are expected to be around 1% of the group based on operating expenditure and are consequently not significant components.

Our group audit approach for 2022/23 will include:

- analytical procedures at group audit level supplemented by tests of detail if appropriate;
- undertaking reasonableness checks on the information to be included in the statements in relation to the entities. We will also assess the controls that management have put in place over the information to be included in the group accounts and assess the potential impact on our audit work;
- updating our understanding of how the Council prepares its group statements and manages the consolidation process; and
- the audit of the group financial statements, ensuring appropriate consolidation adjustments and disclosures of the information provided by the other entities.

# 04

Section 04:

**Significant risks and other key judgement areas**

# 4 Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

### Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

### Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

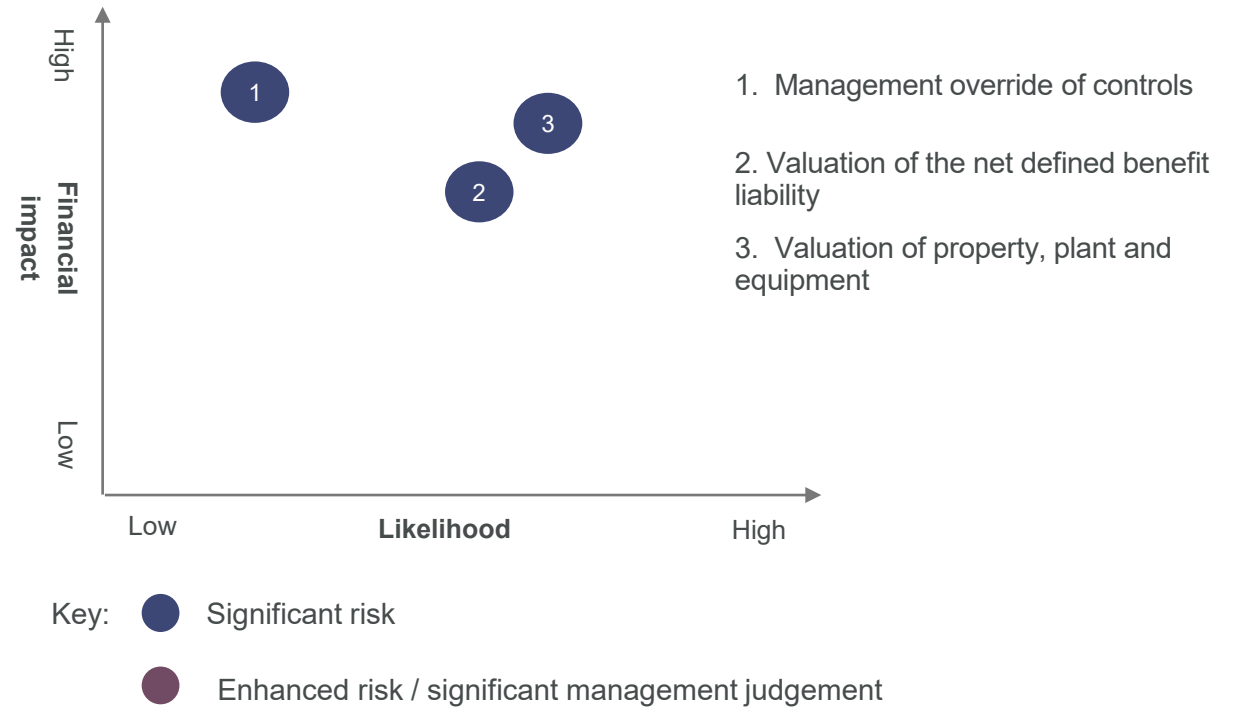
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

### Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

### Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.





# 4 Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, review of a sample of journals that meet our risk criteria and significant transactions outside the normal course of business or otherwise unusual.

# 4 Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Net defined benefit liability valuation</b>                      The 2022/23 financial statements are expected to 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>For 2022/23, a net asset position is being reported for the LGPS for the first time.</p> <p>The 2022/23 position reflects the triennial revaluation of the pension fund at 31 March 2022, rolled forward to 31 March 2023.</p>	○	●	●	<p>We will discuss with our key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider 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> <p>We will consider the accounting treatment in respect of the reporting of a net asset position on the LGPS for 2022/23.</p> <p>We will seek assurance from the Pension Fund auditor in relation to the pension disclosures.</p>

# 4 Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Valuation of property, plant and equipment</b></p> <p>The 2021/22 financial statements are expected to 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).</p> <p>Although the Council employs a valuation expert to provide information on valuations, 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. We have therefore identified the revaluation of PPE to be an area of significant risk.</p>	○	●	●	<p>We will address this risk by:</p> <ul style="list-style-type: none"> <li>• considering the Council's arrangements for ensuring that PPE values are reasonable;</li> <li>• engaging our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuers, and assess the competence, skills and experience of the valuers;</li> <li>• discussing methods used with the valuers and examine supporting information;</li> <li>• using indices provided by our own expert to assess whether the assets not revalued are likely to have materially changed in value; and</li> <li>• testing a sample of revaluations in year to valuation reports and supporting information, and undertaking procedures to gain assurance over the source data used in the valuations.</li> </ul>

# 05

## Section 05: **Value for money**

# 5 Value for money

We are required to form a view as to 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 in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **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

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.



# 5 Value for money

Page 70

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, we have not identified any risks of significant weaknesses in arrangements in our planning to date. We will report any further identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.

# 06

Section 06:

**Fees for audit and other services**

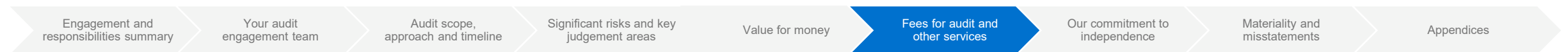
# 6 Fees for audit and other services

## Fees for work as the Council's appointed auditor

At this stage we are proposing one area where there will be a fee increase in 2022/23 compared to our final fees for 2021/22 (this relates to the implementation of revised ISA 315). There is also an inflationary fee increase which is to be funded by PSAA and is not included in the table below. Additional fees for 2021/22, which in turn will impact on the 2022/23 audit fee, are still subject to finalisation and PSAA approval. All fees are subject to VAT.

Area of work	2022/23 Proposed audit fee (£ excluding VAT)	2021/22 Actual Fee (£ excluding VAT)
Scale audit fee	£115,960	£100,824
Recurring increases in the base audit fee arising from regulatory pressures (as reported in the 2019/20 audit, these fees were increased by 25% to reflect a change in rates approved by PSAA from 2021/22; in 2022/23 most of this fee had been consolidated into the scale audit fee)	£3,782	£18,910
Additional fees in respect of the VFM approach (recurring, as agreed from the 2020/21 audit)	£10,000	£10,000
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£4,400	£4,400
Additional fees in respect of the Council's infrastructure and triennial pensions issue – specific issues relating to the 21/22 audit, and non recurring (these have delayed our audit reporting on the 2021/22 financial year – estimated at this stage)	£0	£15,000 <sup>2</sup>
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time)	To be confirmed <sup>1</sup>	£0
<b>Grand total</b>	<b>£134,142 <sup>1</sup></b>	<b>£149,134</b>

See next page for Notes relating to this table.





# 6 Fees for audit and other services

## Notes relating to table on the previous page

Note 1 – there will be an additional fee in the 2022/23 audit for the implementation of ISA 315 (revised), the level of this fee can not be confirmed at this stage, so this fee and the Grand Total for the 2022/23 audit fee are subject to change.

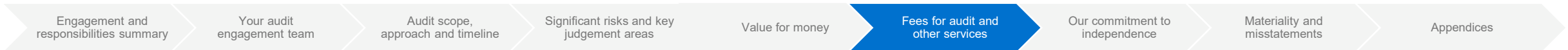
Note 2 – this additional fee is estimated at this stage as the 2021/22 audit is not yet completed.

The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA’s ‘Consultation on 2022/23 audit fee scale’ published in August 2022, PSAA will fund the inflationary increase using “surplus funds not required for PSAA’s operations, which would otherwise be distributed to opted-in bodies” (p8 of the consultation).

## Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23 Proposed Fee (excl VAT)	2021/22 Actual Fee (excl VAT)
Housing benefit subsidy certification	To be agreed	£12,287
Teachers’ Pensions Return	To be agreed	£4,895



# 07

Section 07:

**Our commitment to independence**

# 7 Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 08

## Section 08: **Materiality and misstatements**

# 8 Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	Council £11,027 Group £11,076
Performance materiality	Council £8,821 Group £8,861
Specific materiality	
• Members allowances	
• Senior manager remuneration	25% of value
• Exit packages	
Trivial threshold for errors to be reported to Audit and Governance Committee	Council £331 Group £332

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users

as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements 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.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

# 8 Materiality and misstatements

## Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure at the surplus or deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to Audit and Governance Committee.

We consider that the gross revenue expenditure at the surplus or deficit on provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus or deficit on provision of services level. Based on the draft financial statements we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £11m ( £9.5m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds

materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £331,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

## Reporting to Audit and Governance Committee

The following three types of audit differences above the trivial threshold will be presented to Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



## Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;

- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at Audit and Governance Committee, Audit planning and clearance meetings

# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Audit and Governance Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>

# Appendix A: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit and Governance Committee may be aware of.</p>	<p>Audit Completion Report and Audit and Governance Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>

# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

## Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

## Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

## Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

## Gavin Barker, Director, Public Services

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