



Auditor's Annual Report

Stockton-on-Tees Borough Council – year ended 31 March 2025

November 2025- **DRAFT FOR THE AUDIT AND GOVERNANCE COMMITTEE**

Contents

- 01 Introduction
- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04 Other reporting responsibilities
- 05 Audit fees and other services
- A Appendix A: Further information on our audit of the Council’s financial statements

Our reports are prepared in the context of the ‘PSAA Statement of Responsibilities of Auditors and of Audited Bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

01

Introduction

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 2025. 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.

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 [date to be confirmed]. Our opinion on the financial statements was unqualified [to be confirmed upon audit completion].



Value for Money arrangements

To date, we did not identify any significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council’s arrangements. We reserve the right to amend our findings to reflect additional information that is relevant up to the date of issuing our audit opinion on the financial statements (planned for late February 2026).



Reporting to the group auditor

We have not yet received group instructions from the National Audit Office in respect of our work on the Council’s WGA submission. We are unable to commence our work in this area until such instructions have been received.

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (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 2025 and of its financial performance for the year then ended. Our audit report, issued on [date to be confirmed] gave an unqualified opinion on the financial statements for the year ended 31 March 2025 [to be confirmed]

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made. [to be confirmed]

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

03

Our work on Value for Money
arrangements

VFM arrangements


Overall Summary





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 officers

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.

We outline the risks that we have identified and the work we have done to address those risks on page [x].

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's 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 outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

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?
 Financial sustainability	11	Yes –see page 12 and 14	No	Yes – see page 13 and 14
 Governance	17	No	No	No
 Improving economy, efficiency and effectiveness	20	No	No	No

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>Financial sustainability - Adult and Children's services</p> <p>In our 2023/24 Auditor's Annual Report, we raised an "other recommendation" highlighting the ongoing pressures and the need to manage the 2025/26 budget in line with the revised MTFP. The Council's Powering Our Future Programme has identified significant opportunities to deliver services in a more efficient manner. The Programme has an ambition to deliver up to £8.1m of savings. It is critical that the Council deliver these savings to avoid further reliance on Council reserves.</p> <p>From initial enquires of management, we expect to see similar pressures, and a further deficit to be reported in 2024/25. From the latest update in December 2024, the Council projected an overspend of £6.6m.</p>	<p>Work undertaken</p> <p>We considered the final outturn position for 2024/25 including the achievement of savings targets and the Council's reserves. We followed up on our recommendation made in 2023/24 and Council's progress against actions as part of the Powering our Futures Programme with a focus on actions taken in this area. This included obtaining evidence to support the actions taken by the Council to address the overspends and any future budget gaps.</p> <p>Results of our work</p> <p>The Council's largest overspend in 2024/25 was again seen in Children's Services of £6m against budget. It is currently forecasting an overspend in 2025/26 mainly owing to continued pressure in the Children's and Adult Services, with similar pressures experienced in the sector. We are satisfied from discussion with officers and review of reports that the Council have an understanding of the drivers of these pressures. The Powering Our Future Programme is a key arrangement for delivery of financial sustainability over the life of the MTFP. The Programme includes 14 transformation projects which continue to deliver expected savings. The Powering Our Futures programme, and in particular the transformation mission has identified savings of £5.8m by 2026/27 to date (from planned and approved schemes). Work is ongoing to identify the remaining savings (£2.3m) required through the Council's Powering Our Futures programme. This would leave the Council with a budget gap of £0.9m by 2027/28 as per the most recent MTFP update as at February 2025.</p> <p>The transformation work within Children's Services, focusing on keeping children within the Borough has continued to progress and to date it is anticipated will generate £1m per annum savings across the MTFP. Work continues to mitigate some of the external pressures in relation to the costs of children in care. This includes proposed business cases for fostering and in house children homes aimed at bringing down costs. The Council is also working with partner organisations, such as the Integrated Care Board and local acute hospitals, on early intervention services, possible future joint commissioning arrangements and reviewing existing arrangements to enhance early intervention and prevention.</p> <p>We noted that the Council has been reviewing its existing senior management arrangements in place where continuous reviews for further improvements in existing processes are in progress. This has allowed the Council to collate better quality data which has been used for more accurate forecasting of future costs and understanding growth in demand.</p> <p>The overspends reported in recent years have been largely covered by use of Council reserves. At 31 March 2025 reserves are reported as £28m useable and £8m general fund reserves. The Council recognises that continued use of reserves is not sustainable and is expecting this to be mitigated by the Powering Our Future projects. The most recent financial settlement, announced in December 2024, has seen the Council receive higher than forecast funding. This has improved the Councils financial position over the life of the MTFP. Whilst this funding is welcomed by the Council it recognises that it must continue to deliver on the Powering Our Future objectives and the planned savings.</p> <p>Following the completion of our work, we have found no evidence of a significant weakness in arrangements. While we have identified no evidence of a significant weakness in arrangements, we have raised an 'other recommendation' – see following page.</p>

VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Other recommendation

Whilst the Council understands the reasons for its overspends, any arrangements which the Council already has in place will need to ensure that further overspends are avoided and further contributions from the Council's reserves are not required.

The Council must ensure it manages future budgets in line with the revised Medium Term Financial Plan (MTFP). The Council's Powering Our Future programme has identified significant opportunities to deliver services in a more efficient manner and is a critical element of the MTFP. The majority of the potential savings are planned to come in from 2025/26 with work ongoing to identify further potential savings. The creation of two new SBC homes for Children with Mental Health and Behavioural distress is not expected to deliver any savings beyond those needed to fund the running costs of the homes and associated borrowing. The proposal will provide a stable home for children and will lead to better outcomes for children. The new fostering model, approved by Cabinet in July 2025, is anticipated to be the most critical in addressing cost pressures and will require monitoring. Early intervention schemes to manage demand will be essential.

It is critical that the Council deliver planned transformation projects to avoid further reliance on Council reserves which have been decreasing over recent years.

VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>Financial sustainability – Dedicated Schools Grant (DSG) deficit management planning (New risk)</p> <p>2 As at the 31 March 2025 the Council reported a cumulative DSG deficit of £6.725m. There is currently a statutory override in place which requires the Council to 'ring-fence' the DSG deficit from its general fund, which means it does not have to consider it when setting a balanced budget. Although Government has signalled its intention to extend the period that the override covers to 31st March 2028, without action to address the cumulative deficit, at the end of this period there is a risk that the Council will be unable to set a balanced budget.</p>	<p>Work undertaken</p> <p>We considered the cumulative DSG deficit position of the Council and its forecasted figures until 2027/28 when the statutory override period comes to an end. This was in the context of the Council reporting ongoing deficits over the coming years. We reviewed the Council's Delivering Better Value (DBV) plan and noted the mitigating actions which the Council has/ is planning to implement in order to reduce the deficit. We noted the work the Council had been doing to manage demand and capacity in the borough.</p> <p>Results of our work</p> <p>As at 31 March 2025 the Council's DSG shows a cumulative deficit balance of £6m, which is forecasted to reach £35m by 2027/28 without mitigations. The Council has agreed a detailed DBV plan with a number of mitigations which, if successful, would reduce the cumulative deficit to nil.</p> <p>Following the completion of our work, we have found no evidence of a significant weakness in arrangements. While we have identified no evidence of a significant weakness in arrangements, we have raised an 'other recommendation'.</p>

Other recommendation

It is critical that the Council deliver its Delivering Better Value plan to ensure the cumulative deficit is reduced at the point the statutory override ends in 2028. If successful the DBV plan will mitigate the risk of the Council being unable to set a balanced budget in 2028/29.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

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. The timetable for developing the MTFP is designed to allow for stakeholder engagement ahead of final approval in February. Our review of minutes and discussions with officers confirmed that the MTFP is reviewed and updated on a regular basis. Review of minutes confirmed there was regular reporting of the financial position to Members during and post year end, including quarterly reporting to Cabinet.

The 2024/25 outturn report presented in July 2025 detailed an overspend of £7m against budget which was largely due to pressure in Children's Services and was funded from reserves in-year. The latest 2025/26 outturn reporting is forecasting further overspends against budget for the year, with £1.6m projected pressures as at Q1 2025/26. Review of the 2025-2028 updated MTFP demonstrate that these pressures are expected to continue and work is underway on the 2026/27 budget and refreshed MTFP. External cost pressures and increasing demand are the main reasons for increasing costs. The Council's Powering Our Future programme has identified measures to address costs and demand. We have raised a 'other recommendation' as the Council needs to keep up the momentum in order to remain on target to deliver on its Powering Our Future projects.

There is evidence that there was regular reporting and overall transparency of the financial position throughout the year.

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

The MTFP arrangements include the identification of pressures and required savings. The 2024/25 MTFP position was approved in February 2024. The 2025-2028 MTFP was approved in February 2025. The report presented to Council in February 2025 showed an overall balanced budget for 2025/26. Unmitigated gaps were reported of £7.1m in 2025/26, £8.1m in 2026/27 and £9m in 2027/28. However, an overall balanced position for 2025/26 and 2026/27 was reported assuming savings on transformation with a residual gap of £0.9m in 2027/28. Action to address these pressures included the Council's Powering Our Future programme. The programme is a key project to the Council and aims to identify up to £8.1m in savings to help address budget gaps identified in the MTFP. The Council will need to continue to undertake significant transformation work, especially in Children's Services, and this is a key focus of the Powering Our Futures programme.

The Powering Our Future programme includes consultation with residents and the staff of the Council. A key objective of the programme is to make more data available to support informed decision making. We have seen evidence of this in the Council's reporting of Powering Our Future programme including a recent report to Cabinet in October 2025, which detailed plans for therapeutic residential care for children experiencing mental health challenges and behavioural distress. A further report in July 2025 detailed plans for fostering service

designed to increase capacity. It shows the Council's commitment to its Powering Our Future programme's 5 missions- colleagues, communities, partnerships, transformation and regeneration. The reports are presented to Cabinet on each of those missions.

Our initial review of the MTFP noted that it 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. However, we recognise that a risk to the future financial sustainability still exists, which has the potential to crystallise in future periods, we raised an 'other recommendation' on page 13. We will continue to monitor this as part of our future value for money work.

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

The Council has a new Council Plan agreed by Cabinet in October 2024. This sets out the Council's vision for the future of the Borough, which is a framework that the Council, as well as its partners and communities, will use to ensure they work together towards a shared vision. Through review of minutes we observed there were updates in year on delivery against priorities in the Council Plan, most recently in October 2025.

We confirmed that the MTFP was developed on reasonable assumptions at the time it was agreed 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. In particular, reporting in year highlighted the continued pressures in the Children's Services.

Our review of the MTFP did not identify a reliance on 'one-off' measures to balance the budget.

As noted above the Council's Powering Our Future is a programme of transformation. It aims at securing the financial stability of the Council as well as ensuring the Council provide efficient and appropriate services for residents. Key services within the Council have been identified to form part of the transformation programme. One of the biggest is Children's Services which is an area that is causing significant financial pressures. The transformation reviews include wholesale review of appropriate areas to see where the Council can improve outcomes whilst also ensuring efficient use of resources.

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. We confirmed through review of minutes this took place in 2024/25.

In line with the Prudential Code and the Council's Capital Strategy, revenue implications of capital investment decisions are 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.

We confirmed through review of minutes that the Cabinet and Council consider the updated financial position throughout the year. This allows for Member scrutiny and challenge. In year reporting has presented clearly the challenges faced by the Council and the reasons for any overspend against budget. We confirmed the updated MTFP was considered by the Cabinet and Council at their February 2025 budget setting meeting.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being assessed for impact on communities and service delivery. We confirmed governance arrangements have been put in place for the Powering Our Future programme which are designed to ensure there is scrutiny of planned savings or transformation.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2024/25 to ensure reserves 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. While the overspend in 2024/25 was covered by use of reserves at 31 March 2025 the Council had £28m useable reserves plus £8m general fund reserves. The Powering Our Future programme is intended to transform the Council and mitigate any future reliance on reserves to balance the budget.

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. It details risks associated with future funding, the ongoing economic uncertainty and the continued pressures in Children and Adult services. We confirmed that areas of pressure faced in the 2024/25 financial year are reflected in the

approved MTFP. These include the demand pressures faced in some services provided by the Council, such as looked after children.

The Council has an established risk management framework, and we confirmed through review of minutes and attending meetings that 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 2025.

We confirmed there was regular reporting of the Council's 2024/25 financial position to Cabinet throughout the year. The outturn report presented to the July 2025 Cabinet meeting was consistent with the financial position reported during the year and did not indicate a weakness in the Council's budget monitoring and reporting arrangements. In particular, it highlighted the areas of pressure which had resulted in overspends against budget.

We also considered the cumulative Dedicated Schools Grant deficit position and its forecasted figures until the end of the latest MTFP. We reviewed the Council's Delivering Better Value (DBV) plan and noted the mitigating actions which the Council is planning to implement in order to reduce the deficit in the high needs block. As at 31 March 2025 the Council's DSG shows a cumulative deficit balance of £6m, which is forecasted to reach £35m by 27/28 with no mitigations. The Council currently has a DBV plan with a number of mitigations which, if successful, are planning to reduce the cumulative deficit to nil. The Council would need to deliver on its mitigating actions and monitor its performance carefully, in order to avoid any significant future risks to its financial resilience. We have reported an 'other recommendation' on page 14 of this report.

Conclusion

Based on our work 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. On page 13 and 14 we have raised 'other recommendations'.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on Governance

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

We confirmed that the Internal Audit Plan and Head of Internal Audit Report was presented to, and reviewed by, the 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. We confirmed these are regularly reported to Audit and Governance Committee. The Audit and Governance Committee monitors management actions in response to recommendations for improvement and this is reported on a regular basis. We observed that 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 June 2025. This stated 'From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's control environment to support the preparation of the Annual Governance Statement'. We have reviewed the Internal Audit Plan and matters arising. We have identified no evidence to indicate a significant weakness in arrangements.

An anti-fraud and corruption strategy is in place. 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 based on this review.

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. This includes the continued pressure faced in Children's Services. 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 Council minutes and confirmed there was regular reporting of the financial position during 2024/25 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 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.

Historically, the Council has a good record of delivering against its budgets which is evidence of effective arrangements for budgetary control. The 2024/25 overspend again reflects rising pressures in Children's Services. This is due to increasing costs and demand which has been seen across the sector in recent years. The Council's Powering our Future programme is specifically looking into collecting more data which could potentially help with early intervention and implement initiatives to mitigate those rising pressures.

The financial statements timetable is approved by the Audit and Governance Committee and was delivered in 2024/25. Our audit, to date, 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.

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

We have confirmed that the Council has a Constitution in place and this is published on the Council's website. The Constitution is subject to regular review (at least annually) and updated where required. Review of minutes confirms that any changes to the Constitution are reported to Members and supported by reports explaining the need for changes. Changes in recent years have not been significant. Our review of Constitution notes that it includes procedural rules and roles, responsibilities of Committees, officers and Members. We have reviewed Council minutes in the year and have not identified any evidence indicative of a significant weakness in arrangements.

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

How the Council monitors and ensures appropriate standards are maintained

As noted above 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. We confirmed that registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. Codes of Conduct set out Member and officer responsibilities for ensuring interests are declared. 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 identify any evidence to 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.

We confirmed that the Standards Panel has not met recently which indicates there has not been any member misconduct to investigate in year.

As detailed in the Constitution – 'The Council appoints an Executive Scrutiny Committee and a number of Select Committees which support the work of the Executive and the Council as a whole. The Terms of Reference of these Committees and their composition are included in Part 2 of this Constitution. The Executive Scrutiny Committee is also able to "call-in" decisions made by the Cabinet that may mean they cannot be acted upon until Scrutiny and possibly the Cabinet and Council have re-considered the matter.' Appointments to Committees are subject to annual approval by full Council.

We confirmed there is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved by Council in February 2024. The Annual Treasury Management report was presented to the September 2025 Audit and Governance Committee. The report includes that 'The Chief Finance Officer reports that the majority of all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is detailed in the report. 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

Based on our work we have identified no evidence to indicate a significant weakness in the Council's arrangements in relation to the governance reporting criteria.

VFM arrangements

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

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.

Transformation and other reviews across initiatives are included in the Powering Our Future programme. This includes use of financial and performance data to benchmark the Council's performance and support identification of improvements. Benchmarking has also allowed the Council to identify potential good performance elsewhere and to understand how things are being done differently.

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

We confirmed 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. Following the approval of the Plan, the Cabinet receives annual performance updates. The latest update was provided in the October 2025 to Cabinet. Our review of this identified no evidence to indicate a significant weakness in arrangements.

The Council has arrangements for responding to the most recent Ofsted inspection of Children's Services. We have considered available inspectorate reports and confirmed findings are not indicative of a significant weakness in arrangements with relevant plans being in place to address any findings on improvements needed. Other examples of evaluating performance include:

- Local Government and Social Care Ombudsman Public Report following investigation— presented to Cabinet in October 2025 and Annual Complaints Report 2024/25 including the new Complaints Policy 2024/25 in September 2025
- Review of minutes of other bodies – presented to Cabinet throughout the year.

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 continues to have a well-established and successful partnership with health commissioners via the Better Care Fund. The Council is represented from a service perspective by the relevant Director and from a financial perspective by the Chief Finance Officer. 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.

The Xentrall Shared Services, the Stockton and Darlington partnership, was established in May 2008 and is now in its seventeenth year. The Xentrall services provided to the Council are:

- ICT (strategy and operations)
- Transactional HR (payroll, pensions, recruitment, sickness absence)
- Transactional Finance (creditors, debtors, banking, schools finance)
- Design & Print (professional buyer, in-house design and print)

The 2024/25 Annual Report of the Xentrall Share Service was presented to July 2025 Cabinet. We have reviewed this report and identified no matters indicative of a significant weakness in arrangements.

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.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

We have noted no significant changes in the Council's arrangements compared to previous years. Key commissioning and procurement decisions are taken by suitably skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Management has confirmed access is readily available to professional legal and procurement advice.

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

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

Based on our work we have identified no evidence to indicate a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

Other reporting responsibilities

Other reporting responsibilities

Wider reporting responsibilities

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 group auditor

Whole of Government Accounts (WGA)

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data,

We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us. [to be confirmed].

Audit fees and other services

Audit fees and other services

Fees for our work as the Council's auditor

We reported our proposed fees, which are set by PSAA, 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 June 2025. Having completed our work for the 2024/25 financial year, we can confirm that our fees are as follows [as we have not completed the work at this stage, the fees below may be subject to change].

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£375,805	£347,758
Additional fee: ISA 315 – this was omitted from the original PSAA scale fees. The 24/25 scale fee has been rebased to include but this was omitted from the 23/24 fee.	-	£15,690
Additional fee: PPE work required on challenging assets not revalued in the year.	-	£9,500
Additional fee: Qualification– additional audit procedures required following lack of pension fund assurance over the asset valuations.	-	£4,000
Total fees	£375,805	£376,948

Fees for other 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 'Confirmation of our independence'.

Area of work	2024-25 Proposed Fee	2023-24 Actual Fee
Housing Benefits Subsidy Assurance	£TBC*	£14,950
Teachers' Pensions	£8,500	£7,385

*Subject to us being engaged by the Council to complete this work

Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls</p> <p>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>	<p><u>Audit response</u></p> <p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p><u>Findings</u></p> <p>Findings to be confirmed</p>
<p>Defined benefit pension valuation</p> <p>The 2024/25 financial statements are expected to contain material pension entries in respect of the retirement benefits. In 2023/24, the pension liability was limited due to the asset ceiling.</p> <p>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>In addition to this, in 2023/24 the auditor of the Teesside Pension Fund issued a disclaimed audit opinion for the year ended 31 March 2024. Although we concluded on the material accuracy of the pension liability, we were unable to obtain sufficient appropriate audit evidence to conclude our work on the valuation of the defined benefit assets for the Council. As a result, we issued a qualified audit opinion for the Council to reflect this. We will need consider the impact of this on our 24/25 audit opinion.</p>	<p><u>Audit response</u></p> <p>In relation to the valuation of the Council's pension fund asset and liability, we will:</p> <ul style="list-style-type: none">•Critically assess the competency, objectivity and independence of the Council's Actuary, Hymans Robertson;•Liaise with the auditors of the Teesside Pension Fund to obtain confirmation that the controls are designed and implemented appropriately. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;•Liaise with the auditors of the Teesside Pension Fund to obtain the required assurances over the Pension Fund investment assets;•Review the appropriateness of the Pension valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office;•Agree the data in the IAS 19 valuation reports provided by the Funds' Actuaries for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;• Where applicable, ensure the asset ceiling treatment is correctly accounted for in line with the CIPFA code, IAS 19 and IFRC 14; and•Ensure all required disclosures are reflected in the accounts and relevant notes, in particular any changes in disclosures relating to the asset ceiling. <p><u>Findings</u></p> <p>Findings to be confirmed</p>

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Valuation of Land and Buildings and Investment Property</p> <p>The 2024/25 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, including investment property, and land.</p> <p>Property valuations involve a high degree of estimation uncertainty due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of property to be an area of significant risk.</p> <p>Similarly to property, the Council has also obtained a specialist valuation of its largest investment, the Hampton by Hilton Hotel (£11.9m in 2023/24). The scope of our valuations work will therefore also include Investment Property, in particular the hotel valuation which is the largest balance.</p>	<p>Audit response</p> <p>We will evaluate the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Council in its valuation of land and buildings (including investment property) . We will:</p> <ul style="list-style-type: none">•Assess the scope and terms of engagement with the Valuers;•Assess the competence, skills and objectivity of the Valuers;•Assess how management use the Valuers’ report to value land and buildings included in the financial statements;•Test the accuracy of the data used in valuations;•Challenge the Council’s and Valuers’ assumptions and judgements applied in the valuations;•Review valuation methodology used, including the appropriateness of the valuation basis;•Consider the reasonableness of the valuation by comparing the valuation output with market intelligence;•Challenge management where assets have not been re-valued in year as part of the Council’s rolling programme, reviewing the results of the annual indexation exercise; and•Ensure all required disclosures are reflected in the accounts and relevant notes. <p>Findings</p> <p>Findings to be confirmed</p>

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Implementation of IFRS 16 Leases</p> <p>IFRS 16 changes the definition of a lease compared to IAS 17 and IFRIC 4, and the Council will be adopting the new standard for the first year in 2024/25.</p> <p>We discussed management’s readiness for the implementation of IFRS 16 Leases in 2023/24, at which stage it only affected narrative disclosures. We understand that the Council is still undertaking work to quantify the impact on the Council’s financial statements to ensure accuracy and completeness of the overall balance. The potential impact is yet to be estimated to ensure any arrangements in scope are adequately accounted for in 2024/25.</p> <p>This is a complex area which will require management judgement, and for any property assets which fall within scope, the Council will need to determine which measurement method it will be applying that may involve the engagement of valuation experts.</p>	<p>Audit response</p> <p>We will:</p> <ul style="list-style-type: none">critically review the accuracy and completeness of the Council’s assessment;review the accounting policy and relevant disclosures; andwhere material test the valuation of lease liability and corresponding right of use assets to ensure the valuations are in line with the requirements of IFRS 16 and the Code. <p>Findings</p> <p>Findings to be confirmed</p>

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council

To be confirmed, we have not yet completed our audit work.

Appendix A: Further information on our audit of the Council's financial statements

Internal control observations for the Council

To be confirmed, we have not yet completed our audit work.

Appendix A: Further information on our audit of the Council's financial statements

Follow up on previous year recommendations for the Council

To be confirmed, we have not yet completed our audit work.

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