

AGENDA ITEM 7

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

23 FEBRUARY 2026

REPORT OF CHIEF FINANCIAL OFFICER

GROUP ACCOUNTS

PURPOSE OF REPORT

To present to the Committee reasoning to exclude the Group Accounts element from the Council's Annual Statement of Accounts from the 2025/26 financial year.

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee

- If agreement can be made with Forvis Mazars it is recommended that on the grounds of materiality the Council will not include Group Accounts within the published Annual Statement of Accounts for the reasons stated within the report from the production of the 2025/26 and subsequent accounts.

DETAIL

1. The Council is required by law to produce a detailed Statement of Financial Accounts, which provides information to all stakeholders. The Statement explains in detail how the Council uses its resources and, the net value of the Council (in terms of its assets, liabilities and reserves).
2. Since 2018/19 the Council has produced Group Accounts due to its 100% subsidiary holdings in Stockton Hotel Company Limited and Stockton Holding Company Limited.
3. Authorities account for group accounts in accordance with International Financial Reporting Standards (IFRS) 3 Business Combinations, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, International Accounting Standards (IAS) 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011), except where adaptations to fit the public sector are detailed in the Code.
4. Paragraph 9.1.1.7 of the CIPFA Code states specifically that "*authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is not considered **"material"***". These provisions thereby give scope for an authority to determine that, even though it has a group, Group Accounts are not required.

The Code's Definition of Materiality

The Code contains the following discussion of materiality in paragraph 2.1.2.14: information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those

financial statements, which provide financial information about a specific local authority. In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an important concept for preparers of financial statements, because although decisions on the type of information that is useful are generally made by standard setters, judgements on whether matters are material are necessarily a matter for preparers.

An authority can comply with the Code, while not complying with specific disclosure and accounting requirements in the Code, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

5. Forvis Mazars in their commentary about the Group Audit in the Audit Strategy Memorandum report presented to the Committee in June 2025 they note the component transactions are expected to be around 1% of the group.
6. The Audit Strategy Memorandum report presented by Forvis Mazars also noted that their audit fee will be increased to £376k for their work on 2024/25 financial statements and the Public Sector Audit Appointments (PSAA) have noted that this fee will rise to £382k for the 2025/26 financial year. This fee includes a charge of approximately £10,500 for the work on the group element of the accounts. If agreed with Forvis Mazars and with PSAA then these fees would be saved in the future.
7. With regards to Company Governance for Stockton Hotel Company Limited and Stockton Holding Company Limited please see the Company Governance – Shareholder Agreement report also presented to this committee which formalises and strengthens governance, transparency, financial oversight and assurance arrangements between the Council (as sole shareholder) and its wholly owned companies.
8. Delays in the audit of the Councils and Group Annual Statement of Accounts (linked to pension fund assurance and audit back log arrangements) in previous years has impacted on the reporting and filing requirements within the relevant deadlines of both companies.
9. The accounts for both companies which are provided to Company's House on an annual basis are also now included on the Councils website for full transparency and accountability. These accounts provide more detailed information on the financial position on the companies than is required within the Group Accounts of the authority. These accounts which are more meaningful to the reader are also separately and fully audited by a local private firm of accountants for which a separate fee is charged.
10. Recognising the essential need for transparency across the public sector, in October 2023, the Economic Crime and Corporate Transparency Act received Royal Assent. This means that small companies and micro entities, such as Stockton Hotels Company Limited, have to file a profit and loss account, with small companies having to also file a director's report. This change ensures that turnover is available on the public register. The Act also removes the option for companies to prepare abridged accounts.
11. Along with the points raised above the production of the annual statement of accounts is a complex and time-consuming document to produce. The removal of the requirement to produce group accounts will save a significant amount of officer time in its production, reduce the length the document and make it easier to understand for the reader.

FINANCIAL AND LEGAL IMPLICATIONS

Potential annual saving of £10,500. No legal implications.

RISK ASSESSMENT

None directly from this report.

COMMUNITY STRATEGY IMPLICATIONS

None directly from this report.

CONSULTATION

None directly from this report.

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