

Audit Progress Report

Stockton-on-Tees Borough Council

July 2023



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01

Section 01:
Audit progress

1. Audit progress

Purpose of this report

This report provides the July 2023 Audit and Governance Committee meeting with an update on progress in delivering our responsibilities as your external auditors, in particular, in relation to the delays in completing the 2020/21 and 2021/22 audits. It also includes, at Section 2, a summary of the outcomes from a survey relating to the fiscal pressures and inflation challenges for the public and social sector and at Section 3, a summary of recent national reports and publications for your information.

2020/21 Audit

The audit certificate for the 2020/21 audit has not yet been issued. This was delayed until we received clearance from National Audit Office (NAO) that they will not be selecting the Council as a sampled component for additional work in relation to Whole of Government Accounts (WGA). This issue impacted on all authorities, not just the Council.

At the time of writing we understand that NAO are about to issue the clearance we need and no further work will be required at the Council. We therefore anticipate being able to issue the audit certificate for the 2020/21 audit in early August 2023. The audit certificate formally closes and concludes the audit. It is also the point at which that the Council are required to issue a Notice advertising the completion of the audit. The audit certificate when issued needs to be published on your website alongside the audited 2020/21 financial statements.

2021/22 Audit

Financial Statements audit

We have previously updated the Audit and Governance Committee that following the resolution of the issues that had arisen in relation infrastructure (the Council adopted the statutory override and updated the disclosures in its 2021/22 financial statements in relation to infrastructure, and we completed our audit testing of that), a further national issue had arisen.

The new national issue related to the impact of the delay in 2021/22 audit work, initially caused by the infrastructure issue, and then exacerbated in the Council's case by a delay in receiving the Pension Fund Auditor Assurance letter until 22 March 2023 (the Pension Fund auditor is a different audit firm to Mazars). This meant that the triennial revaluation of the Teesside Pension Fund as at 31 March 2022 was now available as more up-to-date information for management to reflect in the 2021/22 financial statements.

The way forward took a little time to confirm as the situation was unprecedented, and added further to what had already been a considerable delay in completing the audit.

1. Audit progress (continued)

The way forward was then agreed that:

- Authorities (including the Council) were to obtain updated IAS19 valuation reports and amend the 2021/22 financial statements for the new figures; and
- Pension Fund auditors are to complete testing on the reliability and accuracy of the updated pension fund membership data.

The work on this is now being prioritised. Unfortunately, the Pension Fund auditor has indicated that they will not be able to provide us with the results of their testing until September 2023.

We suggest that the final financial statements for 2021/22 are presented for approval to the Audit and Governance Committee on 25 September 2023, and we will also present a follow up letter to the Audit Completion Report 2021/22 at this meeting. It may be that we are still awaiting the results of the Pension Fund auditor testing of membership data at this point, but if the financial statements are approved by the Audit and Governance in September 2023 we will be able to issue our audit opinion immediately on receipt and evaluation of the information from the Pension Fund auditor, without having to wait for the next cycle of Audit and Governance Committee meetings.

The issue of an audit opinion on the Council's financial statements is an important part of the accountability framework for the use of public money. We understand that at mid-July 2023, only 27% of audit opinions had been issued in relation to the 2021/22 financial year. These unprecedented delays are of concern. It is our priority to bring the audit to a conclusion as soon as possible.

It is important to note that in relation to the 2021/22 audit of the financial statements:

- We still anticipate issuing an unqualified audit opinion;
- The delays are nothing to do with management or those charged with governance, and are national issues beyond the Council's control; and
- The issues causing the delays are all in relation to technical accounting issues, none of which will have an impact on the resources available to the Council or its underlying financial position.

Value for Money arrangements

We are not able to report on value for money until we have issued our audit opinion. We have, however, completed our work, and subject to a final check at the point we report, we have not identified any significant weaknesses or recommendations in relation to our reporting criteria of financial sustainability, governance and improving economy, efficiency and effectiveness. We plan to report on value for money through our Auditor's Annual Report as soon as our audit opinion has been issued.

1. Audit progress (continued)

Whole of government accounts

When we have issued the 2021/22 audit opinion, we will also be able to report to NAO on the WGA. However, once again we anticipate a delay before we can issue the audit certificate, as we wait for NAO clearance that they will not be selecting the Council as a sampled component for additional work in relation to WGA.

2022/23 Audit

Our Audit Strategy Memorandum for the 2022/23 audit will be presented to the Audit and Governance Committee on 25 September 2023.

Audit work on the 2022/23 financial statements is already underway.

We are aiming to complete our audit work in relation to the 2022/23 audit by the end of November 2023. However, as for the 2021/22 audit, we are anticipating significant delays in receiving the Pension Fund auditor assurance letter. We will be formally contacting the auditor of Teesside Pension Fund to ensure that their letter is received as soon as possible.

02

Section 02:

Fiscal pressure & inflation challenges for the public & social sector – our 2023/24 survey

Against a backdrop of political uncertainty, unprecedented strike action and the prevailing cost of living crisis – itself a consequence of the conflict in Ukraine among other factors – many of the UK's most vulnerable communities are at risk of becoming more marginalised and desperate. In response, we sought to understand how the public sector plans to support vulnerable people, communities, and service users in 2023/24.

Fiscal pressure & inflation challenges for the public & social sector – our 23/24 survey

Key Findings at a Glance

1. Supporting vulnerable communities is a public and social sector imperative: The public sector is taking proactive steps to strengthen support and service delivery to deprived communities, but could more be done to safeguard vulnerable citizens?

To support people, communities, and service users, 61% said they are seeking new funding/income streams to maintain services; and 54% said they are reassessing the breadth and depth of services. In particular, respondents highlighted the creation of hardship funds, diversion of critical services, and streamlining of internal processes.

81% said lack of funding; 67% said lack of staffing resources; and 46% said focus on short term not long term all pose the greatest barrier to supporting vulnerable people and communities.

2. Innovation and collaboration are key enablers in the fight against financial constraints: As the public sector moves to meet rising demand with renewed vigour, what role will innovation and collaboration play in the fight against poverty?

The majority of public sector organisations are looking externally for support and solutions, with 90% agreeing that external collaboration could strengthen their response to deep-running fiscal challenges and 87% of respondents positive that engaging with third parties could improve efficiency and productivity organisation wide. There were similar reflections about the importance of leveraging internal networks, with 83% of respondents agreeing that staff collaboration across their organisation, e.g. cross-departmental, would improve efficiency and productivity. Organisations are therefore advocating a unified approach, which values the existing workforce's skills and insight, and supplements this with external perspectives to diversify thinking and continually improve.

Both innovation and technology were identified as potential opportunities for improved service delivery. Respondents highlighted the need for digital transformation strategies, sharing good practice, and using artificial intelligence to identify the people and communities most at risk. Efficient and digitised services have the potential to free up resources and there was a particular spotlight on self-help tools for their dual function in creating capacity and empowering citizens.

3. The Public and social sector must redefine its place in an evolving economic landscape: Many service providers are still thinking short-term. How can we ensure public services are future fit, and what will the biggest priorities be over the next 12-24 months?

Organisations referred to targeting priorities across both key inputs (31% securing funding; 41% continuous employee wellbeing and development) and outputs (54% improving citizen/service user experience; 45% supporting local communities to cope with rising living costs).

Public sector organisations remain alert to issues on the external horizon that could impact success, with uncertainty both in relation to energy costs and inflation (90%) and the current UK political landscape (79%) being a key concern for most respondents. Instability in the workforce completed the top three concerns, with 77% of organisations responding that higher level skills shortages were having a high (43%) or medium (34%) impact.

These themes are consistent with previous findings – employees need to be nurtured, new funding streams secured, and significant efficiency gains made. Upstream investment in people and relationships should intrinsically support the achievement of outputs and outcomes, maximising medium to long term impact. However, our survey suggests the sector needs an injection of confidence that there will be the financial and political security to deliver this success.

Our full report of our survey and responses can be downloaded for free from our website. <https://www.mazars.com/Home/Insights/Latest-insights/Public-and-social-sector-study-2023>

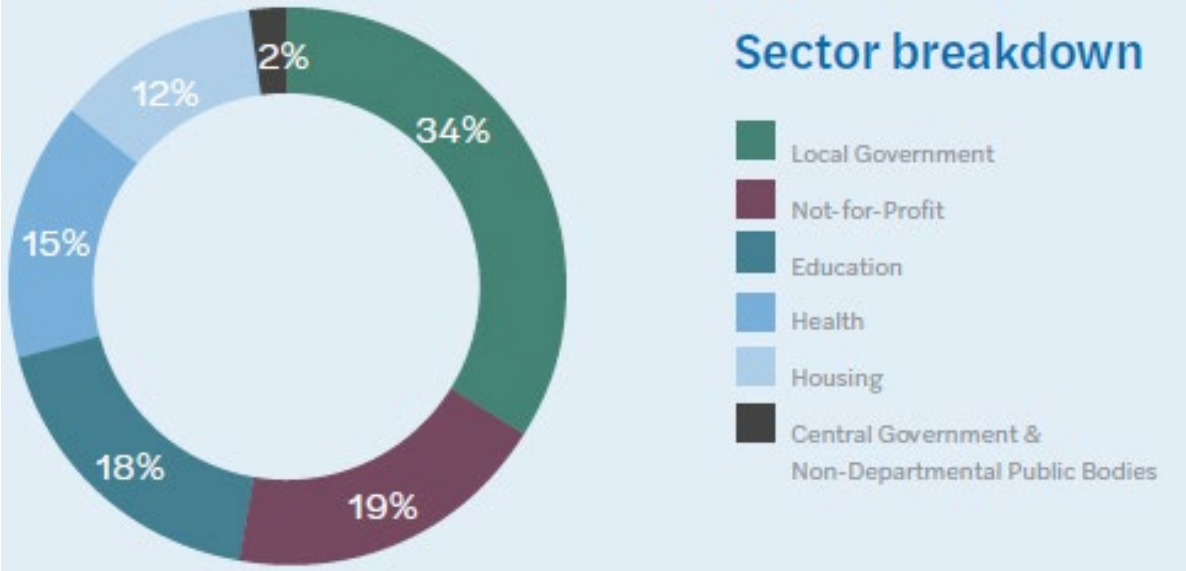
Key findings at a glance

Survey methodology and breakdown

A survey to measure fiscal pressure and inflation challenges for the public & social sector was conducted by Surveys in Public Sector in partnership with Mazars. The consultation period ran from Tuesday 7th February 2023 to Monday 6th March 2023. A total of 332 individuals from 312 unique organisations participated in the survey, representing a broad cross-section of job functions across the UK public sector.

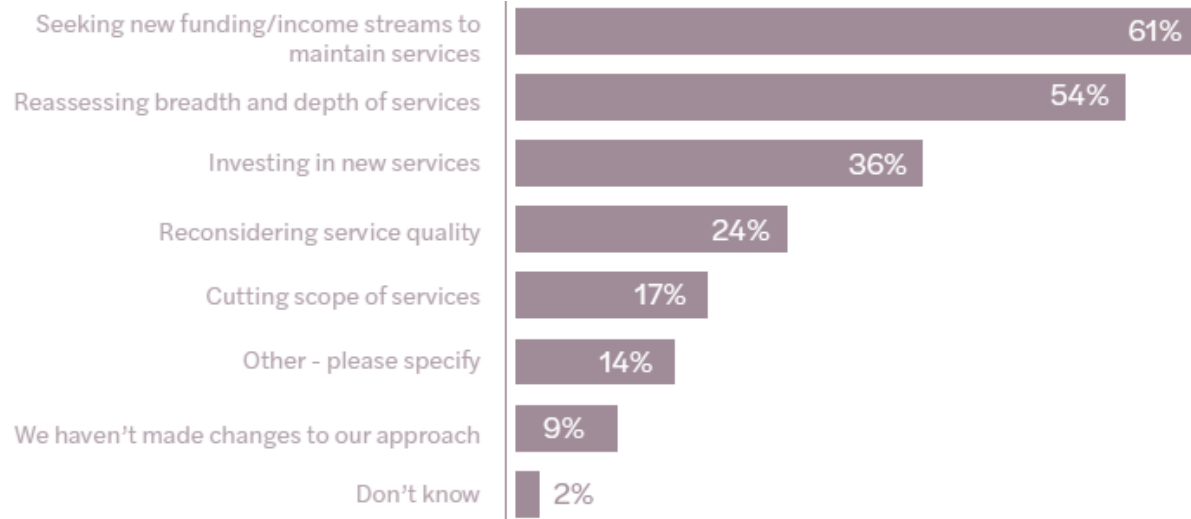
All survey participants have received a complimentary copy of the key findings report. There was no inducement to take part in our research project, and Mazars was not introduced as the survey partner.

The results discussed throughout our report are based on those who fully completed the questionnaire and are displayed as a percentage of this group, unless explicitly stated otherwise.



Key findings at a glance

How is your organisation currently changing its approach to supporting people, communities, and service users?



Supporting vulnerable communities is a public & social sector imperative

How is your organisation currently changing its approach to supporting people, communities, and service users?

- 61% said they are seeking new funding/income streams to maintain services
- 54% said they are reassessing the breadth and depth of services
- 36% said they were investing in new services to meet increasing demand
- 17% said they were cutting the scope of services

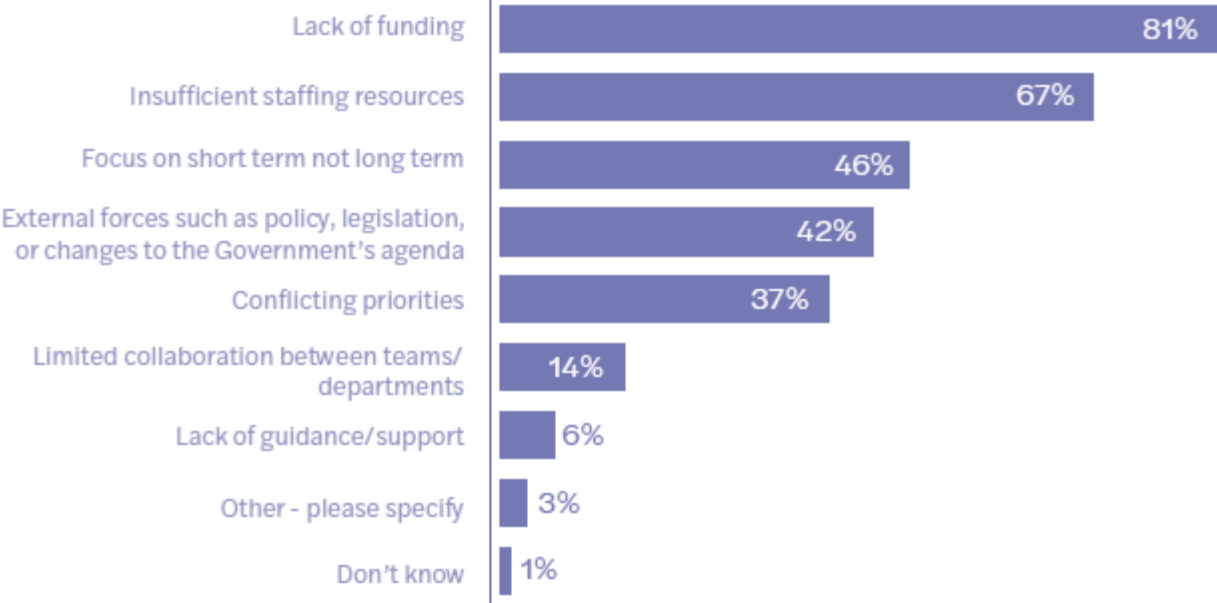
The comments section was used to expand on these points, highlighting the creation of hardship funds, diversion of critical services, and streamlining of internal processes.

In your opinion, which of the following poses the greatest barrier to your organisation's ability to support vulnerable people/communities?

- 81% said lack of funding
- 67% said lack of staffing resources
- 46% said focus on short term not long term

Key findings at a glance

In your opinion, which of the following poses the greatest barrier to your organisation's ability to support vulnerable people/communities?



Innovation and collaboration are key enablers in the fight against financial constraints:

How much do you agree that the following ways of working together/collaboration could help address the fiscal and inflationary challenges your organisation faces?

- Increasing opportunities for easy collaboration locally, regionally, and nationally:

90% agreed that external collaboration could strengthen their response to deep-running fiscal challenges.

- Working with partners to identify innovative solutions to improve efficiency and productivity:

87% of respondents felt that engaging with third parties could improve efficiency and productivity organisation wide.

- Improved/increased staff collaboration across the organisation:

83% of respondents agreed that staff collaboration across their organisation, e.g. cross-departmental, would improve efficiency and productivity.

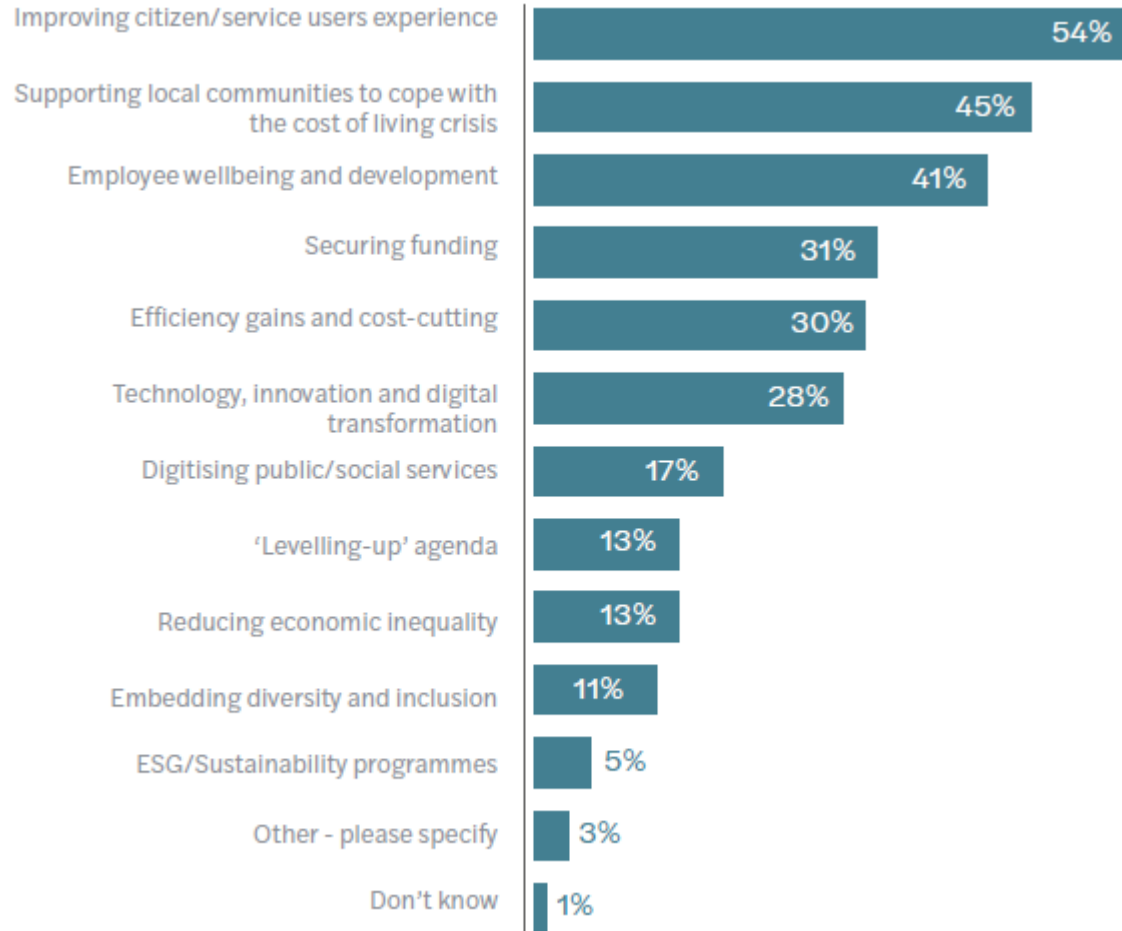
Innovation and technology were identified as potential opportunities for improved service delivery – respondents highlighted the need for ‘digital transformation strategies’, sharing good practice, and using artificial intelligence to identify the people and communities most at risk.

Self-help tools were highlighted to free up internal resources and empower citizens – e.g. raising awareness of services to reduce demand through inappropriate referrals.

Efficient and digitised services were identified as having the potential to free up resources.

Key findings at a glance

Which of the following areas do you believe will be key priorities of your organisation in the next 12-24 months?



Key Findings at a glance

The public and social sector must redefine its place in an evolving economic landscape (long term):

Key priorities for the next 12-24 months

- 54% of respondents saw ‘improving citizen/service user experience’ as a high priority
- 45% saw supporting local communities to cope with rising living costs as a key priority
- 41% agreed with the importance of continuous employee wellbeing and development
- 31% identified securing funding

These themes are consistent with previous findings – employees need to be nurtured, new funding streams secured, and significant efficiency gains made.

To what extent are the following global and national factors impacting your organisation’s decision making?

- 90% of respondents said national economic uncertainty due to energy costs and inflation had a high (64%) or medium (26%) impact
- 77% responded that higher level skills shortages were having a high (43%) or medium (34%) impact
- 79 % of respondents said the current UK political landscape had a high (42%) or medium (37%) impact

03

Section 03:

National publications

National publications

	Publication/update	Key points
Key issues		
A	<p>PFI Hand-Back</p> <p>Many PFI schemes are coming to their end dates and local authorities need to act to manage the risk in asset handover.</p> <p>The Infrastructure Projects Authority, the IPA, recommends that Contracting Authorities begin the asset hand back and the transition to future services some 7 years prior to expiry.</p>	<p>We understand how complicated these projects are and how time-consuming it is on a day-to-day basis just to manage the project on a business-as-usual basis. With that in mind, we would like to share with you one of our latest experiences in helping our clients in monitoring their PFI portfolio.</p> <p>We have conducted a series of workshops for our PFI clients (Local Authorities) to develop a comprehensive assessment of the following areas:</p> <ul style="list-style-type: none"> • main obligations, risks and opportunities (existing PFI portfolio). • role of the Contracting Authority in delivering those contracts whilst managing the future transition. <p>These workshops have included interactive sessions with commercial, financial and operational teams to assess any gaps in contractual obligations, systems, processes, and information about asset conditions as well as resource requirements.</p> <p>In conclusion of those workshops, we worked with the teams to develop a list of corrective actions and key enablers for future service provisions post-transition.</p> <p>These workshops have been delivered as a combination of training (PFI back to basics) and interactive sessions. The advantage of these workshops is that they are bespoke, cost-efficient, specific to the requirements of your PFI portfolio, promote an open culture among your team and help to achieve continuous learning and development objectives.</p>
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1	CIPFA Bulletins	CIPFA has recently issued two Bulletins to provide further guidance on the financial reporting requirements.
National Audit Office (NAO)		
2	Good practice in annual reporting	The NAO published an interactive guide that provides examples of good practice in annual reporting.
3	Tackling Fraud and Corruption in Government	This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.
4	Digital Transformation	This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems.

National publications

	Publication/update	Key points
Department for Levelling Up, Housing and Communities		
5	Department consultation – public inspection of Category 1 authority accounts 2022/23	The Department for Levelling Up, Housing & Communities (DLUHC) is requesting views on the current deadline for category 1 authorities to make their draft accounts available for public inspection.
6	Levelling up enquiry on Local Audit	The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.
Other		
7	ICAEW Vision for Local Audit	The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).
8	Public Interest Report – Croydon Council	Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council.

NATIONAL PUBLICATIONS

Chartered Institute of Public Finance and Accountancy (CIPFA)

1. CIPFA Bulletins

Bulletins issued by CIPFA, with the assistance of CIPFA panels, provide practitioners with topical guidance on specific issues and accounting and reporting developments. CIPFA has issued the following Bulletin's in recent months:

[CIPFA Bulletin 13 – Local Authority Reserves and Balances \(March 2023\)](#). This provides guidance to local authority chief finance officers in England, Northern Ireland, Scotland and Wales on the establishment and maintenance of local authority reserves and balances. The bulletin largely updates guidance in previous bulletins.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-13-local-authority-reserves-and-balances>

[CIPFA Bulletin 14 – Closure of the 2022/23 Financial Statements \(March 2023\)](#). The annual year-end accounting bulletin provides updates on key issues and includes sections on:

Grant recognition and presentation

Subsequent measurement of property, plant and equipment and investment properties

Other capital accounting issues – capital financing requirement (CFR) and minimum revenue provision

Reporting impacts of inflation and high interest rates – financial statements

Final triennial valuation statements received by pension fund account preparers – 2021/22 issue

Narrative report and recent economic activity

Accounting standards that have been issued but not yet adopted and IFRS 16 Leases mandatory implementation as of 1 April 2024 (and other IFRS 16 issues)

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-closure-of-the-202223-financial-statements>

[CIPFA Bulletin 14 – Supplement on The Triennial Valuation and IAS19 Reporting \(May 2023\)](#). This supplementary guidance covers the impact of the triennial valuation statements received for pension funds on IAS 19 Employee Benefits Reporting. It effects the 2021/22 financial statements.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-supplement-the-triennial-valuation-and-ias-19-reporting>

NATIONAL PUBLICATIONS

National Audit Office

2. Good practice in Annual Reporting – February 2023

The NAO has published an [interactive guide](#) that provides examples of good practice in annual reporting, drawing on examples from the public sector and other organisations shortlisted for the Building Public Trust Awards, which recognise trust and transparency in corporate reporting.

The guide draws on examples of good practice for annual reporting from organisations who are leading the way in this area. These examples are grouped by the sections of an annual report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

It also provides further examples where bodies have made their reports easier to understand with the use of graphics, clear and accessible language and signposting. The list is not definitive, but the NAO hopes it provides ideas for all bodies in both the public and private sector to think about as they plan their annual reporting for 2022-23.

NATIONAL PUBLICATIONS

National Audit Office

3. Tackling Fraud and Corruption against Government – March 2023

Since the start of the COVID-19 pandemic, government has recorded a higher level of fraud in the accounts we audit. This reflects the nature of the government's response to the pandemic, including the rapid implementation of large new spending and loan programmes that came with an unusually high risk of fraud.

This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.

The report follows NAO previous work which found government did not have a good understanding of fraud before the pandemic. In NAO's 2016 [Fraud landscape review](#), they found a large disparity between the level of fraud and error that the UK government reports and the level reported in other countries and the private sector. NAO also found there were few incentives for departments to record and report the true scale of potential fraud; a lack of data or metrics to evaluate performance in detecting and preventing fraud; and mixed capability across departments to tackle fraud.

The report can be found at the following link:

<https://www.nao.org.uk/reports/tackling-fraud-and-corruption-against-government/>

4. Digital Transformation in Government – Addressing the Barriers - March 2023

This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems. NAO focus on the approach to transforming government, how the Central Digital and Data Office, its Roadmap and departmental leaders will support and promote this, and whether senior business leaders across government have a suitable level of digital capability.

The report can be found at the following link:

<https://www.nao.org.uk/reports/digital-transformation-in-government-addressing-the-barriers/>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

5. Department Consultation on public inspection of Category 1 authority accounts 2022/23 – February 2023

In March 2021 The Accounts and Audit (Amendment) Regulations 2021 amended the requirements about when accounts must be made available for public inspection for the 2020/21 and 2021/22 accounts, and provided that the period for the exercise of public rights needed to commence on or before the first working day in August in the following financial year.

For 2022/23, the statutory requirement for category 1 authorities is to make accounts available for public inspection for a period that includes the first 10 working days of June, effectively requiring them to be published by 31 May at the latest.

The Government is minded for this deadline to remain in place, but is interested in hearing stakeholders views via a short consultation.

<https://consult.levellingup.gov.uk/redmond-response-team/request-for-views-draft-accounts-deadline/>

6. Levelling Up Committee launches inquiry on local audit – March 2023

The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.

The inquiry will scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.

The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as ‘red flag’ for action by councils to address financial issues, and how auditors in local government could work together to share best practice.

The Committee welcomes written evidence on the terms of reference, which fall under the following headings:

- Users and uses of local authority accounts and audit
- Understandability and accessibility of local authority accounts and audit
- Making local authority accounts meet the needs of users better
- Addressing findings in audits and sharing best practice

<https://committees.parliament.uk/work/7348/financial-reporting-and-audit-in-local-authorities/news/186485/levelling-up-committee-launches-inquiry-on-local-audit/>

NATIONAL PUBLICATIONS

ICAEW

7. ICAEW Publishes its Vision for Local Audit – March 2023

The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).

The ICAEW welcomes the MoU, which covers the role of the ‘shadow’ system leader for local audit pending the establishment of the Audit, Reporting and Governance Authority (ARGA). The ICAEW also believes more needs to be done urgently if the local financial reporting and audit crisis is to be resolved.

The ICAEW's vision for local audit is designed to prompt discussion, identifying a series of challenges the ICAEW believes need to be overcome, and actions it supports to address those challenges. These are grouped into the following areas:

- Improve financial reporting to enhance transparency and accountability
- Deliver high-quality local audits on a timely basis
- Strengthen financial management and governance
- Reform finances to ensure value for money and protect the public interest
- Build a thriving profession that is highly valued

<https://www.icaew.com/insights/viewpoints-on-the-news/2023/mar-2023/ICAEW-publishes-its-vision-for-local-audit>

NATIONAL PUBLICATIONS

Public Interest Report

8. Croydon Council Public Interest Report – February 2023

Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council. His report, completed in March 2021, but only just published in February 2023 found that the dysfunctional leadership and poor governance arrangements contributed to the authority's financial collapse.

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability, and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control. The full report, which includes a number of lessons that other Councils can learn from, can be seen here:

<https://www.croydon.gov.uk/council-and-elections/budgets-and-spending/reports-and-reviews/report-public-interest-fairfield-halls>

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