

# Audit Completion Report

Stockton-on-Tees Borough Council  
– Year ended 31 March 2023

May 2024



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

May 2024

Dear Committee Members

## **Audit Completion Report – Year ended 31 March 2023**

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 25 September 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

*Gavin Barker*

Gavin Barker

Mazars LLP

Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle Upon Tyne  
NE1 1DF

# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls.
- Valuation of the net defined benefit liability.
- Valuation of property, plant and equipment.

## Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £1,055,000. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2023. At the time of preparing this report, there are no significant matters remaining outstanding as outlined in section 2.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We received group instructions from the National Audit Office in respect of our work on the Council's WGA submission in September 2023. We will report on this when we have issued our audit opinion.



### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No questions or objections were received.



# 02




Section 02:

**Status of the audit**

# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Post balance sheet events		Our review is ongoing up until the date of signing the auditor's report (the opinion).
Audit closure		Review and closure processes, including checking the amended version of the financial statements, and final review by the engagement lead and EQR (Engagement Quality Reviewer). We also need to receive a letter of representation from management at the point that we are ready to issue our audit opinion.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.

# 03

## Section 03: **Audit approach**



# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in September 2023. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £11m for the Council and Group using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, resulted in no changes to the materiality level set at the planning stage being made.



## Use of experts

There were no changes to our planned use of experts set out in the Audit Strategy Memorandum.

# 3. Audit approach

## Group audit approach

Group component	Approach adopted	Key points or other matters to report
Stockton Borough Holding Company Limited	●	No key points or other matters to mention.
Stockton Hotels Company Limited	●	No key points or other matters to mention.

- 
**Full audit**  
 Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality
- 
**Audit of balances and/or disclosures**  
 Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality
- 
**Specific audit procedures**  
 Performance of specific audit procedures on the component's financial information
- 
**Review procedures**  
 Review of the component's financial information prepared for group reporting purposes using the component materiality assigned

# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

## Significant risks

Management override of controls]	Description of the risk
	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.
	<b>How we addressed this risk</b> We addressed the management override of controls risk through performing audit work over accounting estimates, review of a sample of journals that meet our risk criteria and significant transactions outside the normal course of business or otherwise unusual.
	<b>Audit conclusion</b> Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.

## 4. Significant findings

<b>Net defined benefit liability valuation</b>	<b>Description of the risk</b> <p>The 2022/23 financial statements are expected to contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>For 2022/23, a net asset position is being reported for the LGPS for the first time.</p> <p>The 2022/23 position reflects the triennial revaluation of the pension fund at 31 March 2022, rolled forward to 31 March 2023.</p> <hr/> <b>How we addressed this risk</b> <p>We discussed with our key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</p> <p>We considered the accounting treatment in respect of the reporting of a net asset position on the LGPS for 2022/23. This included evaluating whether the pension asset needed to be capped at a lower level. Based on our review and the receipt of an asset ceiling calculation from the actuary, no adjustment was required to the net pension asset included in the draft accounts.</p> <p>We sought assurance from the Pension Fund auditor in relation to the pension disclosures.</p> <hr/> <b>Audit conclusion</b> <p>Subject to the misstatements reported in section 6, our work has provided the assurance we sought, and we have not identified any other matters to report in relation to the net defined benefit liability valuation.</p>
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<b>Valuation of property, plant and equipment</b>	<b>Description of the risk</b> <p>The 2022/23 financial statements are expected to contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE). Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of significant risk.</p> <hr/> <b>How we addressed this risk</b> <p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• considering the Council's arrangements for ensuring that PPE values are reasonable;</li><li>• challenging the reasonableness of the valuations provided by the Council's valuers, and assessing the competence, skills and experience of the valuers;</li><li>• discussing methods used with the valuers and examining supporting information;</li><li>• using market data to assess whether the assets not revalued are likely to have materially changed in value; and</li><li>• testing a sample of revaluations in year to valuation reports and supporting information, and undertaking procedures to gain assurance over the source data used in the valuations</li></ul> <hr/> <b>Audit conclusion</b> <p>Subject to the misstatements reported in section 6, our work has provided the assurance we sought, and we have not identified any other matters to report in relation to property, plant and equipment.</p>
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## 4. Significant findings

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 24 July 2023 and were of a good quality. Working papers and supporting evidence was of a high standard.

### Significant matters discussed with management

During our audit we communicated the following significant matters to management:

#### Pension fund liability and asset

The opening net pensions liability as of 1 April 2022 was amended in the 2021/22 accounts because of the revised pensions report the Council obtained due to the triennial revaluation exercise. This resulted in a decrease of £38.3m to the Council's net pensions liability from £282.2m to £243.9m.

As of 31 March 2023, the Council's net pensions liability had further changed and the actuary notified a surplus. Overall, there has been a move from a £243.9m deficit to £101.7m surplus; a similar significant change has been noted for the other Teesside local authorities where we are the auditor. This significant change arises from gross pension assets exceeding liabilities due to movements in markets for assets and changes in actuarial assumptions impacting on liabilities.

We considered the accounting treatment in respect of the reporting of a net asset position on the LGPS for 2022/23. This included evaluating whether the pension asset needed to be capped at a lower level. Based on our review and the receipt of an asset ceiling calculation from the actuary, no adjustment was required to the net pension asset included in the draft accounts.

We received the letter of assurance from the pension fund auditor on 22 April 2024 and have now completed our work. The Pension Fund auditor reported to us that the asset values submitted to the actuary were overstated by £25.009m. In addition, there was significant doubt about a further £11.85m which may also be overstated. Given the Council's share of the PF assets at the year-end is 19% of the scheme investment assets, this difference would amount to a £7m overstatement of pension assets in the financial statements which is not material to our opinion on your accounts. This is set out as an unadjusted misstatement in section 6 below.

#### Reinforced Autoclaved Aerated Concrete (RAAC)

We made enquiries of officers in respect of RAAC being present in any Council-owned buildings and obtained assurance that government department procedures were being followed and there was no indication of any material issues impacting on the Council's assets.

### Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 law;
- make an application for judicial review; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2022/23 audit.

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. No such objections have been raised.

# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Audit and Governance Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

No significant findings or recommendations in relation to internal controls have been noted as at the date of this memorandum.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



# 06

Section 06:

**Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £331,000. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Debtors			1,055	
	Cr: Gross income		-1,055		
Being the extrapolated error arising from our expenditure cut-off testing; an item was selected for testing from April 2023 which related to March 2023. Testing confirmed that the income had been incorrectly included in 2023/24 when it should have been included in 2022/23 (debtor accrual). Actual error £0.211m, extrapolated error £1.055m.					
2	Dr: Revaluation reserve			438	
	Cr: Capital adjustment account				-438
Being revaluation gain which should have been offset against a previous loss, to be corrected in 2023/24.					

## 6. Summary of misstatements

### Unadjusted misstatements (continued)

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
3 Cr: Other Long-Term Assets – Pension Fund				-7,003
Dr: Unusable Reserves			7,003	
Cr: Movement in Reserves Statement		-7,003		
Dr: Actuarial (gains)/losses on pension assets	7,003			
Overstatement of assets in the financial statements due to misstatements identified by the pension fund auditor. Management has determined not to amend the financial statements because this adjustment is not material.				
<b>Total unadjusted misstatements</b>	<b>7,003</b>	<b>-8,058</b>	<b>8,496</b>	<b>-7,441</b>

### Unadjusted disclosure

During our audit we identified the following disclosure misstatement which has not been adjusted by management:

- Note 18 long-term liabilities, includes total additions, some of which should be classified as short-term.

## 6. Summary of misstatements

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Brought forward corporate management and services expenditure and income	4,635			
	Cr: Brought forward adults and health expenditure and income		4,635		
Misclassification of Covid codes in restated brought forward income and expenditure between adults and health and corporate management and services. No impact in current year.					
<b>Total adjusted misstatements prior year</b>		4,635	4,635		

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Debtors due within one year			601	
	Cr: Debtors due after one year				601
Suez debtor due within one year shown as long-term debtor					

## 6. Summary of misstatements

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: PPE infrastructure			1,144	
	Dr: Movement in reserves statement	1,144			
	Cr: CIES cost of services expenditure		1,144		
	Cr: Capital adjustment account				1,144
	Correction of highways infrastructure depreciation				
3	Dr: CIES surplus on revaluation	1,195			
	Dr: PPE land and buildings			6,695	
	Dr: Revaluation reserve			1,195	
	Cr: CIES cost of services expenditure		7,890		
	Cr: Capital adjustment account				7,890
	Cr: Movement in reserves statement	6,695			
	Impact of errors in revaluations				
4	Dr: Cost of services loss on disposal	1,130			
	Dr: Capital adjustment account			1,130	
	Cr: PPE land and buildings				1,130
	Cr: Movement in reserves statement		1,130		
	Impact of errors in the treatment of academy school disposals				
<b>Total adjusted misstatements</b>		<b>10,164</b>	<b>10,164</b>	<b>10,765</b>	<b>10,765</b>

## 6. Summary of misstatements

### Disclosure amendments

We identified the following adjustments during our audit that have been corrected by management:

- Note 10 employers' remuneration, amended for one error in the bandings and one in the amounts disclosed and to include termination payments to a former director.
- Note 11 property, plant and equipment, various classification errors and valuation table amended to correct errors and reflect the valuation changes made within the note correctly.
- Note 15 debtors, classification error between other liabilities and collection fund corrected.
- Note 15a debtors, additional note added with details of class of debtor for assets that are either past due or impaired in relation to non-financial assets.
- Note 26 operating leases, amended to include additional properties.
- Note 29 financial instruments, amended to correct classification between long- and short-term debtors.
- Various other minor presentational and typographical adjustments.

# 07

Section 07:

**Value for Money**

# 7. Value for Money

## Approach to Value for Money

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. 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 significant weaknesses in arrangements exist.

Our initial and ongoing planning work did not identify any risks of significant weaknesses in arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report as soon as possible after issuing our audit opinion on the financial statements.

## Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2023. We have not identified any significant weaknesses in arrangements that require us to make a recommendation.

Our draft audit report at Appendix B outlines that we have completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report, which we will issue as soon as possible after we have issued our audit opinion on the financial statements.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

To be provided to us on client headed note paper

To:

Mr Gavin Barker  
Director  
Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle Upon Tyne  
NE1 1DF

Date: TBC

## Stockton-on-Tees Borough Council (and Group) - audit for year ended 31 March 2023

This representation letter is provided in connection with your audit of the financial statements of Stockton-on-Tees Borough Council (the Council) and Group for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

### My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Council and Group you determined it was necessary to contact in order to obtain audit evidence.



# Appendix A: Draft management representation letter

I confirm as Deputy Chief Executive and Director of Finance, Transformation & Performance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### Accounting records

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and Committee meetings, have been made available to you.

### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired, or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated..

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



# Appendix A: Draft management representation letter

## Fraud and error

I acknowledge my responsibility as Deputy Chief Executive and Director of Finance, Transformation & Performance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

## Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

## Charges on assets

All the Council and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

## Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2022/23 in relation to the Council's PFI schemes that you have not been made aware of.



# Appendix A: Draft management representation letter

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### Going concern

I confirm that I have carried out an assessment of the potential impact of the war in Ukraine on the Council and Group, including the impact on inflation and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### Global Banking Challenges

We confirm that we have assessed the impact on the Council and Group of the on-going Global Banking challenges, in particular whether there is any impact on the Authority's ability to continue as a going concern, and on the post balance sheet events disclosures.

We confirm that our exposure (either direct cash exposure or direct / indirect through investments) with Silicon Valley Bank, Credit Suisse, Signature Bank or any other bank in a distress situation, is not material.

### Reinforced Autoclaved Aerated Concrete

I can confirm we have carried out an assessment of the potential impact of Reinforced Autoclaved Aerated Concrete (RAAC) on the Council and Group. There is no indication of a need for a material impairment of PPE buildings or investment properties as a result of our investigation of the existence of RAAC.

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial both individually and in aggregate to the financial statements as a whole. **Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure.**

Yours sincerely

Deputy Chief Executive and Director of Finance, Transformation & Performance



# Appendix B: Draft audit report

## Independent auditor's report to the members of Stockton-on-Tees Borough Council

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Stockton-on-Tees Borough Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2023, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2023 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive and Director of Finance, Transformation & Performance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive and Director of Finance, Transformation & Performance with respect to going concern are described in the relevant sections of this report.

# Appendix B: Draft audit report

## Other information

The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive and Director of Finance, Transformation & Performance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Deputy Chief Executive and Director of Finance, Transformation & Performance for the financial statements

As explained more fully in the Statement of the Deputy Chief Executive and Director of Finance, Transformation & Performance's Responsibilities, the Deputy Chief Executive and Director of Finance, Transformation & Performance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Deputy Chief Executive and Director of Finance, Transformation & Performance is also responsible for such internal control as the Deputy Chief Executive and Director of Finance, Transformation & Performance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Deputy Chief Executive and Director of Finance, Transformation & Performance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Deputy Chief Executive and Director of Finance, Transformation & Performance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Appendix B: Draft audit report

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Governance Committee, as to whether the Council is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

We evaluated the Deputy Chief Executive and Director of Finance, Transformation & Performance incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.



# Appendix B: Draft audit report

We are also required to conclude on whether the Deputy Chief Executive and Director of Finance, Transformation & Performance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### **Matter on which we are required to report by exception**

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in this respect.

### **Responsibilities of the Council**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities for the review of arrangements for securing economy, efficiency, and effectiveness in the use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency, and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

# Appendix B: Draft audit report

## Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Use of the audit report

This report is made solely to the members of Stockton-on-Tees Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

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

The Corner, Bank Chambers,  
26 Mosley Street  
Newcastle Upon Tyne  
NE1 1DF





[Insert date]

# Appendix C: Independence



As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

# Appendix D: Other communications

Other communication	Response
 <p><b>Compliance with Laws and Regulations</b></p>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
 <p><b>External confirmations</b></p>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <p><b>Related parties</b></p>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
 <p><b>Going concern</b></p>	<p>We have not identified any evidence to cause us to disagree with the Deputy Chief Executive and Director of Finance, Transformation &amp; Performance that Stockton-on-Tees Borough Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications

Other communication	Response
 <p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
 <p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Audit and Governance Committee, confirming that:</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:             <ul style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>

## Gavin Barker, Director

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

### **Mazars**

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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