



# Annual Audit Letter

Stockton-on-Tees Borough Council  
Year ended 31 March 2018





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Stockton-on-Tees Borough Council (the Council) for the year ended 31 March 2018. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our report issued on 30 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.</li></ul>
Other information published alongside the audited financial statements	<p>Our report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 30 July 2018 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

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

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the overall materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of gross revenue expenditure.	£8.275m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£248,000

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in respect of:</p> <ul style="list-style-type: none"> <li>accounting estimates impacting on amounts included in the financial statements;</li> <li>significant transactions outside the normal course of business; and</li> <li>journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work provided the assurance we sought. We found no indication of management override of controls.</p>
<p><b>Defined benefit liability valuation and associated IAS19 entries</b></p> <p>The financial statements 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>We discussed with 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 consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</p>	<p>Our work provided the assurance we sought. We found no indication of material estimation error in respect of pensions.</p>
<p><b>Property, plant and equipment (PPE) revaluation</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE because of the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We considered the Council's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We also performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.</p>	<p>Our work provided the assurance we sought. We did not find any evidence of PPE being materially misstated.</p>

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

Our work did not identify any significant internal control deficiencies in 2017/18 to report, and there are none from 2016/17 to follow up.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

#### Our audit approach

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 30 July 2018, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> <li>• Constitution in place which is available on the Council's website.</li> <li>• Council plan in place for the period 2018 to 2021, and on the Council's website.</li> <li>• Leader's retrospective annual review undertaken.</li> <li>• Management team revised in 2016 to adapt to the Council's future plans, and to be revised again 2019 on planned departure of Chief Executive.</li> <li>• No data quality issues in respect of performance information we are aware of.</li> <li>• Regular reporting to Those Charged with Governance of performance and financial information, including variances.</li> <li>• Medium Term Financial Plan (MTFP) updated at least annually as part of budget setting. Medium term planning undertaken and plans in place; i.e. Council Plan 2018/2021 and MTFP, and which are updated at least annually. Mid-year report to Cabinet also sets out position on MTFP and impact for future years.</li> <li>• Regular and timely reporting to members.</li> <li>• Risk register and risk management arrangements in place. Risks reported to Audit Committee and regular reporting by Internal Audit.</li> <li>• Annual governance statement prepared, reviewed and approved by Members.</li> </ul>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Financial and performance reports record achievement in meeting financial targets.</li> <li>Need to transform services to reduce costs recognised.</li> <li>MTFP updated at least annually as part of budget setting and progress monitoring undertaken including achieving savings targets.</li> <li>Asset register in place and Capital Strategy in place.</li> <li>SWiS (Smarter working in Stockton) programme incorporates use of assets/estate.</li> <li>HR policies and procedures in place.</li> <li>Sickness information and reports are provided to Corporate Management Team, Human Resources Service Group and Heads of Service.</li> </ul>	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Examples of partnership working in place to reduce costs and improve service delivery.</li> <li>Better Care Fund in place with Health and Wellbeing Board having oversight and receiving quarterly updates.</li> <li>Council plan in place for the period 2018 to 2021, and on the Council's website.</li> <li>Council has written procedures for procuring products and services, which are within its Constitution (part 4).</li> </ul>	Yes

### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Medium Term Financial Planning</b></p> <p>Our audit work in previous years has concluded that the Council has robust arrangements in place for Medium Term Financial Planning. The Council continues to face financial pressure in the coming years and the Council is currently updating its medium term financial plan (MTFP). We are also aware that the Council has been undertaking work to review the space it uses in the properties it occupies.</p> <p>We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct conclusion.</p>	<p>Building on our work in previous years, we:</p> <ul style="list-style-type: none"> <li>• reviewed the Council's updated 2018/2019 MTFP to ensure it reflected the latest funding position from central government;</li> <li>• updated our knowledge of the arrangements the Council has in place to monitor progress against its savings plans and income projections that underpin the MTFP, including income from new commercial ventures;</li> <li>• considered the arrangements the Council has put in place to effectively manage its estate in terms of the space it uses in its buildings</li> </ul>	<p>We updated our knowledge of the arrangements the Council has in place, and our work mitigated the risk we identified at the planning stage.</p>



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 30 July 2018.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

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

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in February 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£126,758	£126,758
Certification of Housing Benefit Subsidy Claim	£11,974	£11,974*
Other non-Code work	n/a	£6,749

\*our work is ongoing and is not due for completion until November 2018 in line with the national timetable for this work.

### Fees for other work

Non-audit work includes ad hoc VAT and tax advice which has been undertaken in the year covered by this letter.

We have not undertaken any other grant certification work in the period between issuing our 2016/17 Annual Audit Letter to August 2018.

## 6. FORWARD LOOK

### Financial outlook

The Council is well aware of the financial challenges it is facing in the future. The MTFP has been refreshed and updated for known pressures, events and assumptions as part of the 2018/19 budget setting process.

The Council has set a balanced budget for 2018/19. It is planning for cost pressures, and the latest MTFP recognised net budget gaps of £1.4m for 2019/20, £4.7m for 2020/21 and £3m for 2021/22.

Alongside this, the Council recognises the uncertainties around national funding in the medium term, including the potential local retention of business rates. However, if the local economy grows successfully, this may present an opportunity.

The Council remains well placed to face these challenges and officers continue to keep the overall position under close review.

### Operational challenges

The Council's strategic objectives are defined in the Council Plan which sets out the Council's overall ambitions and priorities and charts the objectives, key actions and outcomes it aims to deliver along with the measures of success that will be used to challenge and monitor progress.

The Council faces a number of other ongoing challenges, including continuous improvement in services and ensuring an effective integrated system of health and social care.

Against a backdrop of continued reductions in funding and future uncertainty, the Council will require organisational capacity, continued good governance and strong risk and project management arrangements. With a financial outlook that is increasingly challenging, the Council will need to ensure operational and financial plans deliver statutory duties and consider the needs and expectations of citizens and service users within available resources.

### How we will work with the Council

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19, which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases. It is anticipated that the impact on the accounts of this could be material.

We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

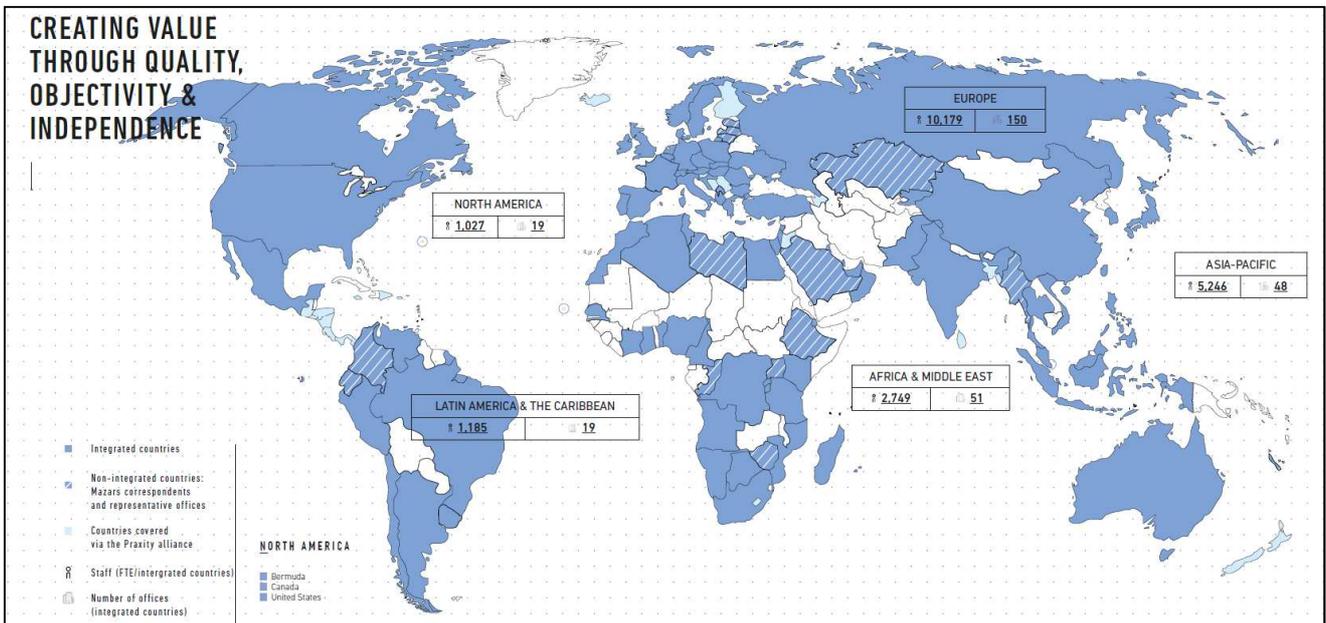
6. Forward look

# MAZARS AT A GLANCE

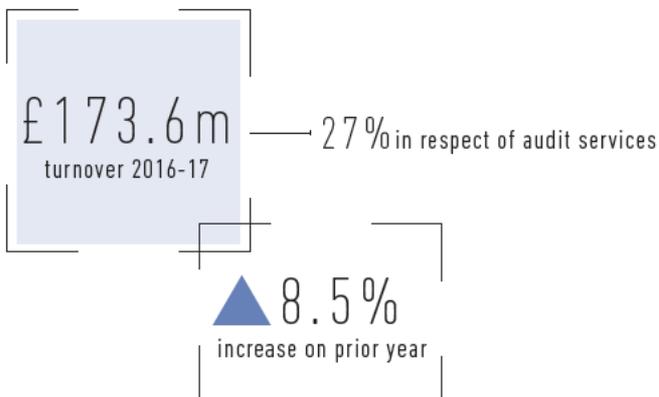
## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



## CONTACT

### **Mark Kirkham**

Partner

Phone: 0113 387 8850

Mobile: 07747 764529

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

### **Gareth Roberts**

Senior Manager

Phone: 0191 383 6323

Mobile: 07815 879557

Email: [gareth.roberts@mazars.co.uk](mailto:gareth.roberts@mazars.co.uk)