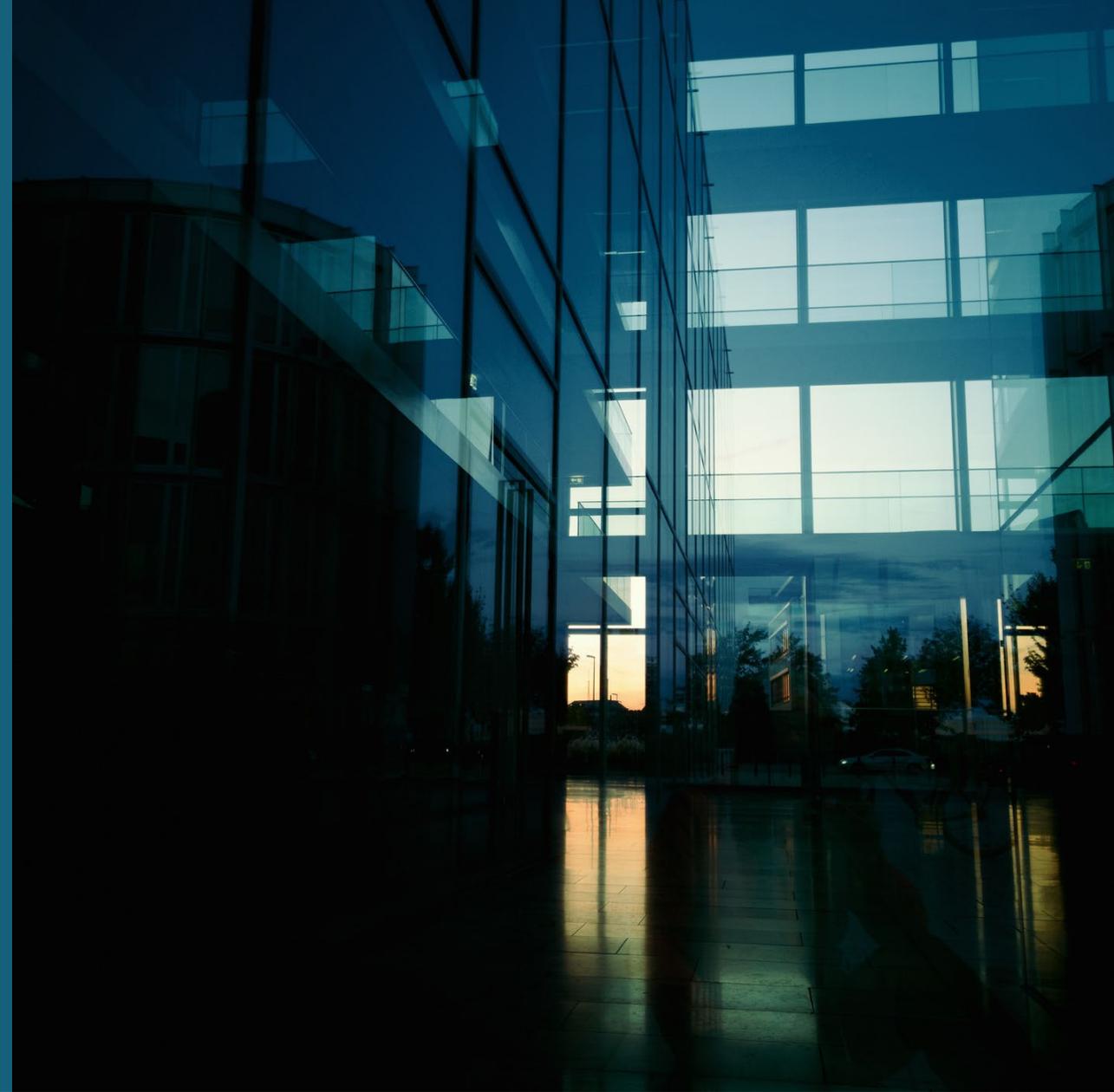


# Auditor's Annual Report

Stockton on Tees Borough Council – year  
ended 31 March 2021

January 2022



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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. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Stockton on Tees Borough Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 7 December 2021. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.

No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



### Wider reporting responsibilities

At the time of preparing this report we have not yet received group instructions from the National Audit Office. As a result our whole of government accounts work has not yet been concluded. We are unable to issue our audit certificate which will formally close the audit for the 2020/21 financial year until this work is complete.

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 Authority and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Authority's financial statements.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

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

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 7 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

## Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 17 July 2021, in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by high quality working papers and we received full cooperation from the Finance team in responding to our queries on a prompt basis.

## 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.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. VFM arrangements – Overall summary

#### Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in 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 there are further risks of significant weaknesses. We did not identify any significant risks during the audit.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	13	No	No

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# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council has an established process for developing its Medium Term Financial Plan (MTFP). The Council's arrangements have delivered significant levels of savings in recent years. We considered the timetable for the MTFP and confirmed that it allows for early engagement with stakeholders. We confirmed the MTFP is revisited on a regular basis and adjusted to reflect any changes impacting on the Council's financial position such as changes in economic outlook and changes in central government funding. The current MTFP factors in the impact of COVID-19, although it acknowledges the uncertainty generated by the pandemic.

We confirmed that there is regular budget monitoring including quarterly reports to the Council's Cabinet. The outturn report for 2020/21 was presented to the July Cabinet meeting and the overall reported position was not significantly different to that reported during the financial year and records departmental overspends of £7.2 million compared with the budget. This position is associated with additional costs and lost income which are mainly the result of the COVID-19 pandemic. The report notes the Council received £18m additional grant income from central government to support the Council in meeting the pressures created by the pandemic. Other pressures included reduction in income collected in the Collection Fund but despite these factors the report notes that:

'Despite the Council incurring significant costs, there was an overall improvement in the draft outturn 2020/21 financial position compared to that projected at December of around £5.5m'.

This is evidence of the effectiveness of financial management arrangements despite the pressures created by the pandemic.

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

The MTFP arrangements include the identification of pressures and savings. The latest MTFP details estimated pressures over the life of the MTFP totalling £15.6 million over the 2021/22 to 2024/25 period. After adoption of the social care levy for 2021/22 the Council set a balanced budget for the year and pressures reduced to £3.4 million for 2022/23 to 2024/25. The Council has a good track record of identifying and delivering savings.

The MTFP recognises the increasing difficulty of identifying savings and managing the impact on front line services especially given the uncertainty about future funding levels. Our review of the MTFP and associated assumptions identified no evidence of a significant weakness in arrangements.

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

The Council developed a refreshed three year Council Plan which was agreed by Cabinet in March 2021. This sets out the Council's contribution to delivering the vision of a place where people are healthy, safe and protected from harm, a place that is clean, vibrant and attractive and a place with a thriving economy where everyone has opportunities to succeed.

We confirmed that the MTFP was developed on reasonable assumptions including forecast funding streams, identification of budget pressures and savings targets required and ability to draw from the budget support reserves if required. The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. In-year monitoring reports detail the pressures faced by the Council, whether savings are being achieved, and if resources need to be redirected to areas in need.

Our review of the MTFP did not identify a reliance on 'one-off' measures to balance the budget. The assumptions in the MTFP and recent outturn against budget confirms the Council has a track record of prudent assumptions in the MTFP.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### How the Council ensures that its financial plan is consistent with other plans

The MTFP and Capital Programme are considered and reviewed in the context of other plans such as the Capital, Investment and Treasury Management Strategies and the Annual Pay Statement. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year.

Other operational planning and its impact on the MTFP is also considered, together with the impact of working with other public bodies.

In line with the Prudential Code and the Council's Capital Strategy, revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process to ensure such investments are fully funded. A detailed Capital plan is included in the MTFP.

The Cabinet and Council consider the updated financial position at various stages throughout the year and allow for Member scrutiny and challenge. The latest MTFP update was considered by the Cabinet and Council at their February 2021 budget setting meetings.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being risk assessed for impact on communities and service delivery. Each saving proposal includes an equality impact assessment. We have considered this in current and prior year savings process with no significant changes in the process noted.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2020/21 to ensure funding set aside remains in line with strategic and statutory priorities of the Council. This is evidenced in the outturn reports presented to Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### How the Council identifies and manages risks to financial resilience

The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the Plan. The 2021/22 MTFP details risks associated with future funding and the ongoing economic uncertainty created by COVID-19. We confirmed that areas of pressure faced in the 2020/21 financial year are reflected in the 2021/22 MTFP. These include the demand pressures faced in some services provided by the Council, such as looked after

children. Despite these uncertainties the 2021/22 MTFP still includes continued investments across a number of key front line service areas, including continued town centre investment in Thornaby, Stockton and Billingham.

The Council has an established risk management framework and the Audit and Governance Committee receives regular risk management updates.

The Council has a strategy to improve its office accommodation which was approved in February 2020 and included in the MTFP. In addition, the 2021/22 MTFP included an increase in building maintenance budgets to ensure spending levels on other property is maintained.

We confirmed that management reported to Cabinet on the Council's commercial activities, including the hotel as part of the updated MTFP in February 2021.

There was regular reporting of the Council's 2020/21 financial position to Cabinet throughout the year. The outturn report presented to the July 2021 Cabinet meeting was consistent with the financial position reported during the year, after including the impact of additional COVID-19 funding, and did not indicate a weakness in the Council's budget monitoring and reporting arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the financial sustainability reporting criteria.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an active internal audit team and the Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Audit and Governance Committee. As detailed in the plan the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommends actions when required to strengthen processes or procedures. These are regularly reported to Audit and Governance Committee which holds management to account where weaknesses are identified. The Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit Opinion was presented to the Audit and Governance Committee meeting in June 2021. This provides the opinion that 'the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time'. We have met with the Head of Internal Audit to discuss the Audit Plan and matters arising. We have identified no evidence of a weakness in arrangements.

A Counter Fraud Plan is in place and was updated and reported to the November 2021 Committee, we confirmed there is also regular reporting to the Audit and Governance Committee on counter fraud activities, including fraud investigations.

As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

### How the Council approaches and carries out its annual budget setting process

The Council's MTFP arrangement includes the identification and evaluation of risks to the Council's finances. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

### How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We have reviewed Council minutes and confirmed there was regular reporting of the financial position during 2020/21 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year, after taking account of additional COVID-19 grants, and did not indicate a weakness in arrangements. As well as being reported to Senior Management Team and Cabinet, reports are also presented to Executive Scrutiny Committee.

The Council has a good record of delivering against its budgets and this is evidence of effective arrangements for budgetary control.

The financial statements timetable is approved by the Audit and Governance Committee and was delivered in 2020/21. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

Decisions are made in accordance with the Constitution and Scheme of Delegation.

We have reviewed Council minutes in the year and have not identified any evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

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

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

### How the Council monitors and ensures appropriate standards are maintained

The Council’s Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. Our work did not indicate a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Panel is responsible for promoting and maintaining high standards of conduct by Members. It is

responsible for advising and arranging relevant training relating to the requirements of the Code of Conduct. The Standards Panel has not met recently which indicates there has not been any member misconduct to investigate.

A system of scrutiny is in place as set out and documented in the Annual Governance Statement. We reviewed the Scrutiny Annual Report for 2020/21 and identified no evidence of a significant weakness in arrangements.

There is regular reporting of treasury management activity that details the Council’s investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council’s measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council’s finances and we identified no evidence to indicate a significant weakness in arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council’s arrangements in relation to the governance reporting criteria.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

### How financial and performance information has been used to assess performance to identify areas for improvement

Directorates have well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement.

The Council has a performance management framework, reporting against a series of indicators. Corporate performance against key performance indicators is presented to Cabinet on a six monthly basis. Our review of those reports identified no evidence of a significant weakness in arrangements.

Service and lean reviews have also been used to identify areas for improvement and to deliver agreed changes. For example, Children’s Services was identified as an area for improvement following an Ofsted inspection report published in July 2019 (requires improvement to be good) with specific issues identified around delays for some children in their assessed needs being met.

The Council Plan includes priorities in relation to children’s care and helping families to stay together and monitors the rate of children in care as a specific performance measure. More detailed monitoring of the number of contacts and care plans with families are monitored by the service (including initial enquiries, rate of referrals, rate of assessments complete, etc). Detailed evidence of monitoring and actions is available from the monthly tactical operational performance (TOP) meetings.

The Council’s financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and equality impact assessments.

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

The Cabinet has monitored performance during the year. Performance is measured against the Council Plan and the format of reports is aligned to the vision and hopes for the Borough. In 2020/21 the six monthly report tracked performance against the Council Plan priority actions and included a commentary on progress, an analysis of priority actions for the rest of the year and in future years which incorporated the implications of

COVID-19.

Assessment by service regulators was limited in the 2020/21 year as a result of the COVID-19 pandemic but the Council has arrangements for responding to the most recent Ofsted inspection of Children’s Services, as detailed above.

### How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council ensures that it is represented at a senior level in its key partnerships, such as partnerships with health. For example, the Council has a well-established and successful partnership with Health via the Better Care Fund. The Council is represented from a service perspective by the relevant Director and from a financial perspective by the Director of Finance, Development and Business Services. The Strategic Finance lead for Adults and Health provides regular support and input. Where necessary key required actions will be incorporated into Council planning, priorities and plans.

In addition, as part of the response to the pandemic, the Council worked in partnership with Catalyst to establish the Community Support Team and the Shielding Hub, a multi-disciplinary approach to providing a one-stop service to support the most vulnerable, providing support around access to food, medicines and emotional well-being support and also links into services such as social care, mental health and welfare support.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. During the pandemic, meetings have been streamed live and recordings of meetings are available on the Council website. The impact of the pandemic has seen an increase in the use of Council on-line services.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

**How the Council commissions or procures services, how the Council ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits**

Key commissioning and procurement decisions are taken by suitably skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

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

As a response to the pandemic, the Council established a new Brokerage function for Adult Social Care packages.

During the COVID-19 pandemic councils were required to assess and grant supplier relief in accordance with PPN 02/20. In response the Council immediately set up a process to assess claims for relief, including a bespoke supplier claim template. Dedicated procurement and finance staffing resources were identified and a senior level officer group established to oversee the process. Regular updates were provided to Corporate Management Team and Leadership.

There is evidence that the Council has arrangements in place to ensure procurement is done in accordance with relevant legislation, professional standards and internal policies, no issues identified that suggest a significant weakness.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the 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 and to carry out certain tests on the data. At the time of preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding. Until this work is concluded we cannot issue our audit certificate.

## 4. Other reporting responsibilities and our fees

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

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in June 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£97,604	£97,604
Additional fees in respect of group consolidation (this is a well established recurring element of the fee)	£3,228	£3,228
Recurring increases in the base audit fee arising from regulatory pressures (as reported in the 2019/20 audit)	£15,128	£15,128
Additional fees in respect of the new VFM approach (recurring)	£nil	£10,000
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£nil	£4,400
Additional one-off fees for specific issues	£4,469	£nil
<b>Total fees</b>	<b>£120,429</b>	<b>£130,360</b>

All fees are subject to VAT. Additional fees are subject to Public Sector Auditor Appointments (PSAA) approval.

# 4. Other reporting responsibilities and our fees

## Fees for other work

In 2020/21 the Council has engaged Mazars LLP for the following audit-related assurance services:

- Housing Benefit Assurance - £11,170 plus VAT (£10,900 in 2019/20)
- Teachers Pension Assurance - £4,450 plus VAT (£4,150 in 2019/20)

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