



# Audit Completion Report

Stockton-on-Tees Borough Council

Year ended 31 March 2020

# CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council 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.

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

14 September 2020

Dear Members

**Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 10 February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. We would like to express our thanks for the assistance of your team in preparing accounts and enabling us to substantially complete our audit to the original timetable.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07896 684771.

Yours faithfully

*Gavin Barker*

Gavin Barker  
Mazars LLP

Mazars LLP – Salvus House, Aykley Heads, Durham. DH1 5TS  
Tel: 0191 383 6300 [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Stockton-on-Tees Borough Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 28 September 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (Council and Group)
- Property, plant and equipment valuation (Council)
- Defined benefit liability valuation (Council)

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

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 conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

The NAO have not yet issued group instructions so the timing of our review of your WGA submission is to be confirmed. We will report the results in our Annual Audit Letter.

### 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. Further details on the exercise of our wider powers are provided in section 2.

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements





Value for Money conclusion

Appendices




# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

| Audit area                          | Status  | Description of outstanding matters  |
|-------------------------------------|---|---|
| Pensions                            |  | We are awaiting assurance from the pension fund auditor, which we expect to receive in September.   |
| WGA                                 |  | We are awaiting group instructions from the National Audit Office. This may impact on the timing of issuing our audit certificate to formally conclude and close the audit. |
| Events after the Balance Sheet date |  | Our review is ongoing up until the date of signing the auditor's report (the Opinion).  |
| Financial Statements (post-audit)   |  | Review and closure processes, including checking the amended version of the financial statements.   |

### Status

-  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

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £9.627m for the Council and £9.637m for the Group using a benchmark of 2% of Gross Operating Expenditure at the surplus or deficit on provision of services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £9.614m for the Council and £9.650m for the Group, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee) at £288k for the Council and £290k for the Group, based on 3% of overall materiality.

## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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 8 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;
- significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's and the Group's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Description of the risk

Management override of control (Council and Group)

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. Due to 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.

---

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

---

#### Audit conclusion

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.

---



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Property, Plant and Equipment Valuation (Council)

### Description of the risk

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 uses valuation experts 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 therefore identified the valuation of PPE to be an area of significant risk.

---

### How we addressed this risk

We addressed this risk by considering 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 valuers. We also assessed the competence, skills and experience of the valuers.

We discussed methods used with the valuers and examined supporting information. We used indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We tested a sample of revaluations in year to valuation reports and supporting information, and also undertook procedures to gain assurance over the source data used in the valuations. We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness.

---

### Audit conclusion

The valuers followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation reports disclosed a "material valuation uncertainty" in relation to the valuation of the Council's land and buildings. This has been disclosed in note 5 of the financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

Our draft Auditor's Report at Appendix B includes a draft emphasis of matter paragraph (as highlighted on page 20 of this report). The draft wording is subject to our internal review processes, and if this wording subsequently changes we will provide an update in the follow up letter to the Audit and Governance Committee when the audit is completed, as noted on page 4 of this report.

Our work has provided the assurance we sought and we have not identified any other matters to report in relation to property, plan and equipment valuations.

---

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

### Description of the risk

Defined benefit liability valuation (Council)

The financial statements contain material pension entries in respect of 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. Moreover, in 2019/20 the local government pension fund assets and liabilities were subject to triennial revaluation. This resulted in an increased risk of material misstatement.

### How we addressed this risk

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 that 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 our expert's report on all actuaries nationally.

We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We also considered the adequacy of disclosures in the financial statements.

### Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought. At this stage we have not identified any errors in respect of the valuation of pensions, but await assurance from the pension fund auditor.

### Key area of management judgement

Depreciation of Property, Plant and Equipment

### Description of the management judgement

Property, Plant and Equipment is depreciated over its useful life in the financial statements.

### How we addressed this management judgement

We undertook testing of the underlying calculation of depreciation to ensure it is reasonable.

### Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### **Qualitative aspects of the Council's and Group's accounting practices**

We have reviewed the Council's and Group's accounting policies and disclosures and, subject to the amendments in section 4, concluded that they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's and Group's circumstances.

Draft accounts were received from the Council on 15 July 2020 and were of a good quality. Working papers were provided on a timely basis and were likewise of good quality.

### **Significant matters discussed with management**

#### ***Treatment of Dedicated Schools Grant***

The Council is currently showing a negative balance for the 'Dedicated Schools Grant reserve' (Note 7). This, in our view is not appropriate as a Council can't set aside amounts that are not available. This means a negative earmarked reserve is not appropriate unless derived from a statutory authority. We are not aware of any such authority being granted. The current position may reflect the funding position, i.e. the deficit position will be funded from another source but this is different to the financial reporting position.

Management's view is the disclosure reflects the reality of the Council's position and they are not proposing to amend. The amount is not material, and as such, we do not consider that this impacts on our audit opinion.

#### ***McCloud Judgement***

The McCloud judgement relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. For the financial year 2018-19 Aon Hewitt, the actuary of your Local Government Pension Scheme (LGPS), provided revised actuarial reports which included an estimate of the impact of the case on the Council's pension liability. At the time of making this estimate actuaries were required to estimate what the proposed remedy would be. In 2019/20 the respective actuarial reports made an adjustment to the initial estimates based on further information received.

In July 2020 Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgement.

Management enquired of Aon Hewitt, in relation to the expected outcome of this change on the LGPS. Aon Hewitt confirmed that the estimate made in the 2019/20 IAS 19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

#### ***Goodwin Case***

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

Management enquired of Aon Hewitt, and they have confirmed that there will be an additional liability arising from the Goodwin judgement. Full information is not yet available to accurately calculate the impact, however, based on an estimation, it is expected to have a minor impact. As the impact of this is expected to be well below materiality, no adjustment to the financial statements has been made.

As the McCloud and Goodwin issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements on page 11.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### 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. Officers have been very helpful and responsive in addressing our audit queries, and we are grateful for the assistance provided.

Given the Government's COVID-19 instruction for the public to work from home if possible, our audit was completed remotely but this did not cause significant difficulties during the audit because:

- we used technology, such as video conferencing, to ensure the audit was completed to the required standards;
- all working papers provided were electronic and of a good standard;
- we used a team of public sector audit specialists with the same engagement lead, senior manager and team leader as in 2018/19; and
- Officers were responsive which meant we were able to conclude our fieldwork in line with the agreed timetable.

### 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; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 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. We have not received any questions or objections in respect of the Council.



# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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.

Our work has not identified any significant deficiencies in our 2019/20 audit to report, and there are none from 2018/19 to follow up.



## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £288k for the Council and £290k for the Group.

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 2019/20

|  | Comprehensive Income and Expenditure Statement |            | Balance Sheet |               |
|--|--|------------|---------------|---------------|
|  | Dr (£'000)                                     | Cr (£'000) | Dr (£'000)    | Cr (£'000)    |
| 1 Dr: Debtors (payments in advance)<br>Cr: Cash  |  |            | £708          | £708          |
| Relating to a payment made before 31 March 2020 that was adjusted in the bank reconciliation rather than being treated as a debtor (payment in advance). |  |            |               |               |
| 2 Dr: Long term liabilities<br>Cr: Short term liabilities  |  |            | £318          | £318          |
| Relating to finance lease liabilities included as long term that was short term. Also impacts ion Note 18.   |  |            |               |               |
| <b>Total unadjusted misstatements</b>  | ~  | ~          | <b>£1,026</b> | <b>£1,026</b> |

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2019/20

|   | Comprehensive Income and Expenditure Statement |            | Balance Sheet |            |
|---|--|------------|---------------|------------|
|   | Dr (£'000)                                     | Cr (£'000) | Dr (£'000)    | Cr (£'000) |
| 1 Dr: Balance Sheet - Short term creditors<br>Cr: Balance Sheet – Grants receipts in advance  |  |            | £4,300        | £4,300     |
| Relating to the S31 NNDR grant received in 2019/20 for 2020/21 that should be shown in grants received in advance rather than short term creditors.                         |  |            |               |            |
| 2 Dr: Balance Sheet Short term creditors<br>Cr: Balance Sheet – Loans and Borrowing   |  |            | £645          | £645       |
| Relating to loan interest that should be classified under the code as borrowings within 1 year.   |  |            |               |            |
| 3 Dr: Group CIES<br>Cr: Group CIES  | £2,300   | £2,300     |               |            |
| Relating to a misclassification in the movement of Property, Plant and Equipment held at group level, which is held as Investment property in the single entity statements. |  |            |               |            |

### Disclosure amendments

Our audit has identified the following disclosure matters that management has agreed to amend:

- Notes 1 and 2 Expenditure and Funding analysis; An adjustment for £4,300k relating to 'adjustment for capital purposes' between Childrens Services and Community Services;
- Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations; amended to separate the adjustments relating to the revaluation reserve from the CAA;
- Note 11 Non current assets – property, plant and equipment;
  - Land and Buildings Opening cost and depreciation in the note overstated by £844k relating to an asset write out last year. There is no impact on net book value;
  - Land and Buildings Opening cost and depreciation in the note overstated by £1,343k relating to two assets that amalgamated in prior years and should be removed from the note. There is no impact on net book value;
  - Land and Buildings Opening cost and depreciation in the note overstated by £1,395k relating to asset additions last year that were impaired. There is no impact on net book value;

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments (continued)

- Note 11 Non current assets – property, plant and equipment;
  - Vehicles Opening cost and depreciation in the note overstated by £2,574k relating to asset additions in prior years that were impaired. There is no impact on net book value;
  - £679k amendment from additions to valuations in the note to reflect valuation increase, as opposed to an addition;
  - £1,758k amendment between the two revaluation lines in the note to correct a classification error between the two;
  - Cost and depreciation overstated by £754k relating to componentised assets for 3 schools that were not removed on. There is no impact on net book value; and
  - Net book value of land and buildings overstated by £340k relating to assets disposed of not reflected in the asset register.
- Note 20 Revaluation reserve; Included balances for 2 schools of £8,891k that converted to academy status in prior years, and as such the balances should have been written out. The impact is a transfer between this note and the CAA Note 19 (as well as bottom of the Balance Sheet);
- Note 22 Related Party Transactions; amended to include balances at year end as required;
- Note 28 Grant income; amended to reflect RSG grant of £449k included on the NNDR S31 grant line in error;
- Note 29 Financial instruments;
  - Note amended to remove gains and losses relating to items that were not 'financial instruments'
  - Note amended to ensure compliance with the Code;
  - Financial instruments - financial liabilities included in creditors reduced by £2,239k relating to items that were not 'financial instruments';
  - Financial instruments - financial assets included in debtors and Financial instruments - short term debtors per balance sheet, reduced by £2,407k relating to items that were not 'financial instruments'; and
  - Financial instruments – Fair value of financial liabilities amended by £25,000k to reflect in year borrowing;
- and a number of other more minor disclosure, grammatical or consistency amendments.



## 5. VALUE FOR MONEY CONCLUSION

### Our approach to Value for Money

We are required to form a conclusion as to 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
- Working with partners and other third parties

It is important to clarify that the arrangements we consider in reaching this year's conclusion are those in place for the 2019/20 financial year.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

| 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 2019 to 2022, and updated for period 2020 to 2023, on the Council's website.</li> <li>• Leader's retrospective annual review undertaken.</li> <li>• Management team stable.</li> <li>• No data quality issues in respect of performance information we are aware of.</li> <li>• Regular reporting to TCWG of performance and financial information, including variances.</li> <li>• Medium term planning undertaken and plans in place; i.e. Council Plan 2019/2022 (updated for period 2020 to 2023) and 2019/2023 Medium Term Financial Plan (MTFP) (updated for period 2020-2023), and which are updated at least annually. Mid year report to Cabinet also sets out position on MTFP and impact for future years, including up to date risk assessment of the potential impact of COVID-19 pandemic.</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                    |

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

| 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. Mid year report to Cabinet also sets out position on MTFP and impact for future years, including up to date risk assessment of the potential impact of COVID-19 pandemic.</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 2019 to 2022 (updated for period 2020 to 2023), 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                    |

### Significant Value for Money 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 Value for Money 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 Value for Money risk. The work we carried out in relation to the significant risk is outlined overleaf.

During March 2020, the significant impact of the COVID-19 pandemic began to have far reaching implications for us all, including an impact on the Council. In particular, following the lockdown from 26 March 2020, the Council needed to respond to the impact of the pandemic on its communities and also needed to adapt to new ways of working.

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, the majority of the impact on the Council's arrangements fell in the new financial year 2020/21. Consequently, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

The Council's response to the pandemic will be a major focus of our 2020/21 audit. With this in mind, we have continued to liaise with officers and gain an understanding of the arrangements that have been put in place in the new financial year.

# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant Value for Money risks; findings and conclusion

| Risk  | Work undertaken   | Conclusion  |
|---|---|---|
| <p><b>Sustainable resource deployment</b></p> <p>Our audit work in previous years has concluded that the Council has robust arrangements in place for Medium Term Financial Planning.</p> <p>We need to ensure our knowledge of the Council's MTFP arrangements remains up to date in order to ensure we give the correct VFM conclusion.</p> | <p>Building on our work in previous years, we:</p> <ul style="list-style-type: none"> <li>reviewed the Council's updated MTFP to ensure it reflects the latest funding position from central government and makes reasonable assumptions for future funding;</li> <li>reviewed and updated our knowledge of the arrangements the Council has in place to monitor and deliver any savings identified, any additional income generation and any measures to manage future cost pressures that underpin the MTFP.</li> </ul> <p>We found that the MTFP, issued in February 2020 for the period 2020/2024, reports the known changes, but also reports the significant changes that could lead from national changes to future funding arrangements that are not yet finalised, and as such the funding position in the medium term remains uncertain. The overall planned position for the Council at that time, based on known factors, was a largely balanced position over the period to 2024. The Council has adequate reserves in the medium term, including £60m in useable revenue reserves at the end of March 2020.</p> <p>The arrival of COVID-19 in the UK has had a significant impact on the Council and its finances. Officers have reviewed and updated the position as the impact became clearer, and presented an update report to Cabinet/Council in July 2020. This reported a significant impact in 2020/21 and a net requirement, after available grants at that time of circa £6m. Clearly this will be subject to change as we continue to move through the crisis and its effects, but officers remain committed to ongoing updates to the Council's plans as things become clearer. We also note that the Council retains adequate usable revenue reserves for the medium term.</p> | <p>We updated our knowledge of the arrangements the Council has in place, and our work has mitigated the risk we identified at the planning stage. The MTFP reflects the latest Government announcements, and has been updated on a timely basis to reflect the potential impact of COVID-19.</p> |

### Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

To:  
Mr Gavin Barker  
Director  
Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

[Date]

### Stockton-on-Tees Borough Council (and Group) - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Stockton-on-Tees Borough Council (and Group) for the year ended 31 March 2020 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 2019/20 (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/Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Financial Officer 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 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.

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

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

### Fraud and error

I acknowledge my responsibility as Chief Financial Officer 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/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's/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 Council's/Group'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's/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.

### 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.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

#### Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council/Group, including the impact of mitigation measures and uncertainties 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/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.

#### 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. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Director of Finance, Development and Business Services

Date.....

(PLEASE ADD THE APPENDIX OF UNADJUSTED MISSTATEMENTS TO THIS LETTER)

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices



# APPENDIX B

## DRAFT AUDITOR'S REPORT

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

#### Report on the financial statements

##### Opinion

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 2020, which comprise the Council Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, and Collection Fund, and the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, and Group Cash Flow Statement 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31<sup>st</sup> March 2020 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 2019/20.

##### 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 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.

#### THE WORDING OF THIS PARAGRAPH IS SUBJECT TO INTERNAL REVIEW AND IS SUBJECT TO CHANGE

##### Emphasis of Matter

###### Material uncertainty relating to valuations of land and property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 5 to the financial statements concerning the material valuation uncertainty statements made by the Council's valuers.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance, Development and Business Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance, Development and Business Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The Director of Finance, Development and Business Services is responsible for the 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. 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Director of Finance, Development and Business Services for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance, Development and Business Services 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 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance, Development and Business Services is also responsible for such internal control as the Director of Finance, Development and Business Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance, Development and Business Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance, Development and Business Services 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.

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

### Conclusion on Stockton-on-Tees Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Stockton-on-Tees Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### **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. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

### **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.

**THE FOLLOWING SECTION WILL DEPEND ON WHETHER WE HAVE BEEN ABLE TO REPORT ON WGA BEFORE WE ISSUE OUR REPORT EITHER:**

#### **Certificate**

We certify that we have completed the audit of Stockton-on-Tees Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**OR:**

#### **Delay in certification of completion of the audit**

We can not 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. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

**IF THERE IS A DELAY IN ISSUING A CERTIFICATE, A CERTIFICATE WILL BE ISSUED AT A LATER DATE WHEN THE WGA REPORT HAS BEEN COMPLETED.**

[Signature]

Gavin Barker  
Director  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

[Date]

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# 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.



## CONTACT

### **Engagement lead**

Gavin Barker

Mobile: 07896 684771

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

### **Senior manager**

Gareth Roberts

Mobile: 07815 879557

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