

Annual Audit Letter 2013/14

Stockton-on-Tees Borough Council



October 2014

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27 October 2014

Dear Members

Stockton-on-Tees Borough Council Annual Audit Letter 2014

We are pleased to present to you the Stockton-on-Tees Borough Council 2013/14 Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for local government bodies as issued by the Audit Commission and delivered all expected outputs according to the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office. We focused our audit on the risks relevant to the preparation of the Council's financial statements and its ability to maintain proper arrangements for securing value for money.

2013/2014 has been another challenging year for the Council in a period of continued unprecedented change. Significant levels of savings are required to respond to continued financial pressures, and we reflect on these matters in the value for money and future challenges sections of this letter.

However we were pleased to issue an unqualified opinion on the financial statements and the value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as Senior Officers and Members of the Audit Committee; the continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my Senior Manager Martin Barnes on 0191 383 6325.

Yours faithfully

Mark Kirkham
Director
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01 Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit period for Members and other interested parties of Stockton-on-Tees Borough Council (the Council).

In addition to this letter, we presented our Audit Completion Report to the Audit Committee on 29 September 2014 which provides more detail of the work we have undertaken in 2013/14. Our outline plan was set out in the Audit Strategy Memorandum we issued for the year and we updated Members periodically in our regular Audit Progress Reports.

Our audit of the financial statements

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2014.

Summary of main findings from the audit

We highlight the following key points:

- good quality of the draft financial statements and supporting working papers;
- few errors in the financial statements, either adjusted or unadjusted and no material errors impacting upon the Council's General Fund balance or Earmarked Reserves;
- no new significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- some minor recommendations raised to further enhance accounts preparation.

Full details are available in our separate Audit Completion Report. We would highlight the positive outcome of the audit and in particular the continued constructive and responsive approach of officers.

Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for local government bodies and the Commission's guidance on the Value for Money (VfM) conclusion for 2013/14. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work focused on the two criteria specified by the Audit Commission, namely:

- financial resilience; and
- economy, efficiency and effectiveness in the use of resources.

The main focus of our VfM work was the arrangements for delivery of the Medium Term Financial Plan (MTFP), including specific work to assess the financial and governance arrangements supporting new partnerships, joint ventures and 'invest to save' initiatives.

Our work allowed us to satisfy ourselves, against the backdrop of the continued unprecedented change and challenges of recent years, that the Council has maintained proper arrangements for securing value for money in its use of resources during the year. As highlighted in our Audit Completion Report, the Council is well aware of the significant challenges it faces. We comment further on these in section 03.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. As your activity is below the threshold set by the NAO for a full review of the WGA pack, the procedures we were required to carry out were limited to consideration of property, plant and equipment and pensions entries. We reported that the Council's consolidation pack was consistent with the audited financial statements on 30 September 2014.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2013/14 accounts from local electors, nor did we exercise our wider reporting powers.

02 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee in June 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	2012/13 Final Fee	2013/14 (as previously reported)	2013/14 Final Fee
Code audit work	£167,940	£167,940	£178,440
Certification work	£32,250	£15,965	£15,965
Non-audit work	n/a	n/a	n/a
Total	£200,190	£183,905	£194,405

The Audit Commission approved a variation of £10,500 to the scale fee for 2013/14 Code audit work, for additional work to address a significant risk to the VFM Conclusion arising from the financial governance arrangements the Council has in place to support new partnerships, joint ventures and 'invest to save' initiatives.

There has been a very small increase in fees for Code audit work of £540 since we reported to you in our Audit Strategy Memorandum for 2013/14. This increase has arisen because the Audit Commission no longer makes certification arrangements for the National Non-Domestic Rates (NNDR 3) return, which previously provided auditors with assurance over the relevant entries in the Council's accounts. As a result, for 2013/14 we have undertaken additional audit testing to obtain sufficient assurance over the relevant entries in the Council's accounts. The associated additional audit fee is in line with guidelines provided by the Audit Commission to all local authority auditors.

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefits Subsidy claim. We will confirm the final fee charged for certification work when we issue our Certification Letter.

We confirm that we did not undertake any non-audit work during the year.

03 Future challenges

The Council has responded well in recent years to a less stable financial environment in wider local government; meeting funding reductions by implementing action to deliver your MTFP. Further downward pressure in 2013/14 on local government spending power increased the 'budget gap' that the MTFP must bridge in future years. The MTFP includes the requirement for savings to address the gap which is forecast to rise to £17 million by 2016/17.

Each year undoubtedly becomes harder and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The delivery of an underspend in 2013/14 and continued identification of ways to meet savings requirements in 2014/15 and 2016/17 should not allow stakeholders to underestimate the challenge ahead in meeting the significant spending reductions required.

The Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans well ahead of the relevant financial year. As we have seen in 2013/14, the Council is exploring innovative service redesign solutions to preserve service delivery and financial stability, such as new partnerships, joint ventures and 'invest to save' initiatives. We have also seen that when doing so, the Council adopts controlled processes to mitigate risks.

We will continue to work closely with officers and will monitor the Council's response to the issues outlined, during the 2014/15 audit.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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