

Auditor's Annual Report - **DRAFT**

Redcar and Cleveland Borough Council
– year ended 31 March 2023

April 2024



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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 Redcar and Cleveland Borough Council ('the Council') for the year ended 31 March 2023. 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. **This is a DRAFT report, as we have not yet issued our audit opinion. The report will be finalised when we issue our audit opinion, anticipated in April 2024.**

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 [insert date]. Our opinion on the financial statements was unqualified. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to finalisation of remaining issues.]**



Value for Money arrangements

In our audit report issued [not yet issued] we reported that we had 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. Section 3 provides our commentary on the Council's arrangements.



Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. **We are unable to respond to NAO until we have issued our audit opinion [not yet issued].** As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

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 2023 and of its financial performance for the year then ended. Our audit report, issued on [insert date] gave an unqualified opinion on the financial statements for the year ended 31 March 2023. [At this stage, we anticipate being able to issue an unqualified opinion, subject to finalisation of remaining issues.]

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council on 26 July 2023 and were of good quality.

Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work. The following issues presented some difficulties on the audit this year.

Pension asset recognition

Each year, employers within the Local Government Pension Scheme (LGPS) receive an actuarial accounting report prepared in accordance with IAS19 Employee Benefits. The report sets out the movement in the employers' interest in the LGPS assets and liabilities during the year, and their share of assets and liabilities at the year end. At 31 March 2023 some employers have, for the first time in many years, have a net IAS19 pension asset (surplus) and this was also the case for Redcar and Cleveland Borough Council. When an employer has a net IAS19 pension liability, the liability is included in the financial statements in full. Where there

is a surplus, there are circumstances under which the surplus is not recognised in full in the financial statements and therefore there was some uncertainty as to the accounting treatment to follow. To demonstrate full recognition of the surplus, the Council had to obtain an additional 'asset ceiling' report from the Actuary and we had to undertake further work to establish that the accounting treatment was appropriate.

Land and building valuations

The valuation of land and buildings under the depreciated replacement cost (DRC) method did not include an allowance for external works or a location factor for building cost (BCIS) indices. This required a full revaluation of all DRC assets (circa £132m) to demonstrate that there was no material misstatement in the balance as at 31 March 2023. This resulted in an unadjusted error of £3.356m.

Pension fund assurance

There was a delay in obtaining the pension fund letter of assurance from the auditors of the Teesside Pension Fund which meant that we could not complete our audit until [insert date]. [At the time of drafting this report, the Pension Fund auditor has informed us that they expect to report to us by 15 April 2024.]

Reporting responsibility	Outcome
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 10.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	15	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

The Council approved its Medium Term Financial Plan (MTFP) in February 2022 covering a 5 year timeframe from 2022/23 to 2026/27 (previously a 2 year MTFP). Financial sustainability and resilience remain a key ingredient of the current plan as well as seeking external funding for capital investments and managing the Council's borrowing requirements. The plan required savings of £2.85m in 2022/23 with a further £1.36m required across the MTFP up to 2026/27.

The 2022/23 MTFP considered income and funding, service investment and the 'Driving Change' efficiency improvements and recognised the risks and uncertainties facing the Council. The MTFP was supported by consultation with the public, staff, partners and other stakeholders. Our review of the MTFP and associated assumptions identified no evidence of significant weaknesses in arrangements. The Council utilises some scenario planning in the development of its budget and MTFP and has undertaken to progress this further as per the recommendation in the CIPFA Local Government Review Report.

Budgets are assigned to operational managers who monitor budgets on a monthly basis and this is reported to Members on a quarterly basis. At the end of the 2022/23 financial year, the Council reported an overspend of £4.64 million. This is largely due a £10m overspend on Children and Families including an overspend of £6.8m for children in care. This is offset by a number of underspends, most notably £4m in Adults and Communities.

The level of general fund balances and earmarked reserves (excluding collection fund reserves and school balances) available to the Council as at 31 March 2023 was £36.318m which is a reduction of £6.4m on the balance for 2021/22 of £42.718m. The level of general fund balances has been set at £5.747m which is the agreed minimum level of 5% of the Council's net budget provision and remains the same as in 2021/22. The financial position reflects the significant pressure that the Council is facing at the current time including inflationary pressures on both pay and non-pay budgets.

The financial position is very challenging, but our work did not identify any evidence to indicate a significant weakness in arrangements for 2022/23.

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

The 2022/23 MTFP recognised the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular.

The Council's 'Driving Change' efficiency improvements programme seeks to improve productivity & efficiency, streamline operations, and promote financial resilience and sustainability. The 2022/23 MTFP set out a savings plan of £4.2m over the 5 years of the MTFP with £2.85m planned for 2022/23. The outturn report showed that £2.35m (82%) was classified as being achieved out of the £2.85m target. The £0.5m not achieved relates to the ongoing challenges in relation to children in care. Whilst the Council did not fully meet the target, this does not represent a significant weakness in arrangements given the amounts involved.

The MTFP has been updated for 2023/24 and we will consider this in more detail as part of our work on our 2023/24 value for money commentary. As at quarter 3 (December 2023), the Council is reporting an anticipated year-end overspend of £4.8m million largely due to significant overspends in Children and Families (£10.5m). Work is ongoing to reduce the overspend at year end. Reserves at quarter 3 are £28.8m which is a reduction of £7.5m on the £36.3m balance as at 31 March 2023. Nearly £4m (£3.7m) of this total is in relation to the planned use of earmarked reserves for the collection fund risk reserve and business rates funding reserve. There is some financial resilience to withstand the additional pressures but a number of reserves are held for future contractual commitments and not for supporting overspends on the budget.

To address the significant financial challenges, in 2023/24 the Council has revised its driving change programme and committed to deliver £6.4m efficiency savings in 2023/24. As at quarter 3, £5.73m (90%) has been achieved. A further £0.4m (6%) is in progress and £0.27m (4%) is outstanding. This is incorporated into the overall projected revenue position. The efficiency savings across the MTFP from 2024/25 to 2028/29 has been increased to £8.8m with the majority of this (£7.5m) programmed for 2024/25. The Council has a good track record of delivery but this will be challenging.

Further measures will need to be identified to find additional budgetary solutions to mitigate the remaining planned budgetary drawdowns from reserves assumed for 2024/25 and later years. This will involve finding additional savings over and above the driving change measures already approved & achieved to ensure financial sustainability and minimise the further reliance on already depleted reserves. Furthermore, the Council will continue to ensure it plans for varying levels of demand, cost inflation and funding levels in later years.

The Capital Investment Plan is financed in such a way that the costs to the Council's budgets of any borrowing linked to the financing of the capital programme can be spread over the life of the asset being invested in. The CIPFA Report highlighted that the Council holds considerable amounts of debt and the financing costs of this present a considerable revenue cost. The Council has a significant capital investment programme to support its strategy and will need to carefully manage this.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Our work did not identify any evidence to indicate a significant weakness in arrangements. However, like many other Councils, we recognise the significant financial pressure that the Council is dealing with at this time with reported overspends of £4.6m in 2022/23 and projected overspends of £4.8m in 2023/24. This has meant that the Council has had to make some unplanned contributions from its earmarked reserves to support the budget and it is likely that the overall reserves position will reduce from £36m in March 2023 (£42m in March 2022) to circa £25m as at 31 March 2024. As noted previously, some of these reductions are planned and not all due to overspends in year. The Council has taken swift action to improve the financial position by managing the spend in year and increasing the savings targets across the MTFP as part of its 'Driving Change' efficiency improvements programme. Whilst the Council has a good record of achieving its savings targets, this is nevertheless a challenging programme to deliver.

We make 'other recommendations' when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken. We have raised an 'other recommendation' below to recognise the challenging financial position across the MTFP. In this case, we are not highlighting a weakness in arrangements but reinforcing the seriousness of the financial position and the importance of the Council delivering its own plans.

Matter arising	Our recommendation
1 The Council faces a challenging financial position in 2024/25 and the future years of the MTFP.	The Council needs to manage existing cost pressures particularly in Children and Families where there have been significant overspends in the previous two years. Further measures will need to be identified to find additional budgetary solutions to mitigate the remaining planned budgetary drawdowns from reserves assumed for 2024/25 and later years. This will involve finding additional savings over and above the driving change measures already approved and achieved to ensure financial sustainability and minimise the further reliance on already depleted reserves. Furthermore, the Council will need to continue to plan for varying levels of demand, cost inflation and funding levels in later years.

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

A new corporate plan 'Our Flourishing Future' has been developed for 2021 to 2024. The current set of Corporate Priorities fall under the following four areas:

- Tackling Climate Change and Enhancing the Natural Environment;
- Meeting Residents' Needs;

- Improving the Physical Appearance of the Borough and Enhancing Prosperity; and
- Investing for the future.

The annual business planning process provides the link between finances and the Council's strategic and statutory priorities. The plan drives the resourcing and financial plans for the organisation, resulting in the annual budget and the MTFP. The financial plans recognise the ongoing pressure the Council faces and the impact on its reserves strategy. In-year monitoring reports detail the pressures faced by the Council and highlight where mitigating action is required.

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

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

The MTFP report considers the implication on the workforce, health and safety, social value, legal, financial and equality and diversity.

A Treasury and Capital Strategy is updated on a regular basis and sets out how the Council manages risks and benefits associated with cash-flow, treasury management and borrowing. The strategy sets out how the Council can fund a multi-year capital programme in a financially sustainable way using a series of prudential indicators to monitor the position. This is supported by 'Business Case' documentation to ensure capital projects go through a robust business case documentation process and the revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year

Risk management is also considered in terms of financial plans and risk-registers are regularly updated and reported to the Cabinet throughout the year.

Cabinet consider the updated financial position at various stages throughout the year and allows for Member scrutiny and challenge. The MTFP for 2022/23 and 2023/24 were considered in February 2022 and February 2023 respectively.

The annual budget process includes reviewing the Council's reserves. We confirmed a review was completed in 2022/23 and 2023/24 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the Cabinet during the financial year.

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 identifies and manages risks to financial resilience

The financial plan recognises the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. Our review of the financial plan shows that there is no evidence that assumptions are unrealistic or that reserves have dropped below the minimum levels required for a Council of this size and complexity with the risk it faces. However, clearly the Council has faced significant inflationary pressure in 2022/23 on both pay and non-pay budgets.

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

Financial reports contain evidence of a summary of the Council's performance, detailing significant variances and providing adequate explanation of the causes.

We are satisfied that there are saving plans in place and that the Council has a good record of delivering on its plans in previous years. However, as noted previously, the scale of the savings required over the MTFP will be challenging and we have raised an 'other recommendation' in this respect.

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

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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

Redcar and Cleveland Borough Council has approved and adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.

The Council has a Risk Management Framework that is used and monitored by a Risk Management Group and is periodically reviewed, amended and approved by the Governance Committee. The Corporate Risk Register is reviewed, updated and challenged regularly and presented to Directorate Management Teams and the Executive Management Team and reported to the Governance Committee and Cabinet. This creates a framework within which risks are identified and evaluated prior to mitigation plans being put in place.

The Council has outsourced its internal audit and counter-fraud services to Veritau which is a partnership that specialises in local government provision. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's 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 objectives. The Head of Internal Audit Opinion was presented to the Governance Committee meeting on 7 August 2023 and the overall opinion on the framework of governance, risk management and control operating at the Council is that it provides 'Reasonable Assurance'. This means that there is a generally sound system of governance, risk management and control in place but some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

A Counter Fraud Plan is in place which is reported to the Governance Committee. We confirmed there is also regular reporting to the Governance Committee on counter fraud activities, including fraud investigations where applicable.

The Council has a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Council has a dedicated counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud including Anti-Fraud, Anti-Bribery & Anti-Corruption Policies.

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

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

The MTFP recognises the risks and uncertainties facing the Council in terms of future cost pressures, funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular. The MTFP is supported by consultation with regional local authority partners and other stakeholders.

We have reviewed the budget setting arrangements through review of minutes, observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressures it faces.

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

The Council produces monthly budget monitoring reports to all budget holders and regular meetings are held with finance to discuss variances. Quarterly forecasts of outturn reports are presented to the Cabinet. The Chief Finance Officer is a member of the Executive Management Team and attends Cabinet Member meetings.

There is a delegated framework of financial accountability, including named cost centre managers assigned to cost centres, identified senior managers to be responsible for financial performance in each service area and a financial reporting timetable for monitoring. The 'Driving Change Programme' helps to ensure the Council identifies and implements efficiency and savings opportunities, which is reviewed on a quarterly basis.

Each Directorate Management Team is provided with dedicated Finance Managers resource to provide advice and support on business decisions. Finance Managers also take regular consolidated budget monitoring information into the Directorate Management Teams for review

The financial statements were submitted for audit in 2022/23 on 26 July 2023. Whilst we did identify some material errors in respect of valuations of property, plant and equipment, our audit of the financial statements did not identify any matters to indicate a significant weakness in the integrity 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.

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

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.

Redcar and Cleveland Borough Council's governance arrangements are set out in its Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. This includes the financial procedures and the scheme of delegation. The Council's procedures help to ensure that appropriate legal, financial, and other professional advice is considered as part of the decision-making process and observes specific requirements of legislation.

Cabinet reports, other member reports and delegated decision-making powers are reviewed by Finance and financial implications are assessed and reviewed. Reports specifically consider risk, legal issues, finance matters and other key corporate decision-making factors. Equality impact assessments are produced to assess relevant key decisions and policies, which are published on the Council's website. All other key documents and decision-making reports are accessible via the Council's website, except where they address confidential issues and there is a reason for them to be exempt

At Scrutiny and Improvement Committees, members review progress against objectives through discussion with Cabinet Members and through quarterly monitoring of financial and performance information. Joint Scrutiny Committee arrangements are also in place with neighbouring authorities to provide oversight and accountability reflecting more collaborative approaches to service design and delivery, particularly in relation to health matters, and the key functions of the Tees Valley Combined Authority. There are also monitoring and reporting arrangements in place to assess performance against priority objectives – undertaken on a quarterly basis.

A Forward Plan of Key decisions is maintained, refreshed and published on a regular basis. Key decisions taken are published on its website giving notice of key decisions to be taken by Cabinet and Council and those taken using delegated powers. The Public has the opportunity to ask questions at Cabinet and Council.

A Governance Committee is maintained which is independent of the Cabinet and Scrutiny Committees. The Governance Committee is tasked with ensuring, amongst other things, good stewardship of the Council's resources and promoting proper internal control by reviewing the Council's control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies.

The Council publishes the outcomes from external reviews and inspections from regulatory bodies and monitors the implementation of any recommended actions through the performance management framework.

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

How the Council monitors and ensures appropriate standards are maintained

The Council has in place a framework of written procedures and controls. Central to these are detailed rules for decision making and rules of procedure, including; the Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

There are established codes of conduct for members and officers and a register of gifts and hospitality which is available on the Council's website and supported by relevant training. Related parties are recorded on an annual basis and disclosed in the statement of accounts as well as senior officer remunerations. In addition, there is confidential reporting of unethical behaviour (whistle-blowing, anti-fraud, anti-money-laundering and anti-bribery policies) in place.

The Annual Governance Statement (AGS) is published and reviews the effectiveness of the Council's Governance Framework.

The Council appoint an independent person to support the complaints process in accordance with the requirements of the Localism Act 2011 and publish an Annual Complaints Report which considers the outcome of the complaints raised during the year.

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 2022/23 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. Our work did not identify any evidence to indicate a significant weakness in arrangements.

The Council provides training to members and officers through a Member Induction Programme and Corporate Induction process.

There were no areas of significant non-compliance with the CIPFA Code in terms of the financial statements.

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

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

Directorates have well established processes for reviewing financial and performance information and use this to inform areas for improvement. Key volume and price metrics are monitored by Directorates to inform service and improvement planning – such as adult social care, waste management and children in social care. Performance information is shared with Cabinet Members and Scrutiny. Performance information relating to cost drivers and demand pressures are used to inform budget setting & monitoring.

Areas of adverse performance feed into the Council's risk register where relevant. Our review of the risk register and attendance at Governance Committee confirms that it covers areas such as secondary school attainment and performance, balancing the MTFP, costs for waste treatment.

The Leadership Team receive financial information to inform the budget setting process. Key members of the Executive Management Team are involved in decision-making around service investment and the 'Driving Change' savings. Quarterly financial reports to Cabinet provide an assessment of the financial outturn position for the year in relation to approved budgets for Revenue, Capital and usable reserves, Collection Fund and Treasury Management issues and also progress against the 'Driving Change' plans.

The Council has undertaken reviews through the CIPFA Financial Resilience Index, to assess and compare various indices on levels of expenditure of key service areas as a proportion of the revenue budget. Other benchmarking data provided by Arlingclose and Pixel is also referenced and used. The Council also undertake internal benchmarking exercises to assess areas such as council tax and business rate collection.

Services are involved in service improvement initiatives such as:

- Occupational therapy: launching an Integrated Therapy Triage Pilot, working with NHS Community Therapies across South Tees, providing a single point of access for referrals, ensuring the adult receives the right service for them, it is hoped this will reduce referral duplication and waiting times;
- Care and support: Work is near completion for supported living care community at Kirkleatham for older people and people with disabilities;
- Climate: First net zero road resurfacing schemes in the North East;
- Mockingbird fostering model with a Hub Carer and constellation developed;
- Opening of the new No Wrong Door Hub to support children on the edge of care and in the Council's care.

- Early help – Family Hubs launched to provide improved outcomes for children at an earlier age;

Corporate performance against key performance indicators is reported to Cabinet. Our review identified no evidence of a significant weakness in arrangements.

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 impact assessments.

The recent CQC inspection on 'Health Visiting and School Nurseries' received ratings of 'good' across all areas. OFSTED's review of Children's Services identified a number of areas which required improvement to reach a good rating but none were considered inadequate.

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

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

Scrutiny Committees receive performance updates and feedback from inspections. There is a range of benchmarking undertaken including Children and Families for example which take part in a North East Benchmarking comparison regarding elements of children in care performance. Other areas of benchmarking are undertaken in adult social care and waste services. The Council uses information from Pixel as well as the CIPFA resilience index for example.

Performance monitoring takes place across Directorates and this is supplemented with surveys across the Council's stakeholders to help improve performance. The Cabinet monitor performance during the year against the Corporate Plan and monitor the non-financial key performance information.

Based on our review of a sample of reports and our understanding of the reporting framework, there is evidence to support the monitoring, reporting and overall scrutiny of both the performance and the financial position of the Council.

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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 works with local communities, volunteers, voluntary and community organisations, the NHS, care providers, police, probation, schools, colleges and universities, businesses and many more. Some examples include:

- The Council has supported the independent Redcar Town Deal Board to develop multi-million-pound plans to transform Redcar. As part of the Clean Energy Education Hub – a training centre created with Redcar and Cleveland College which will help deliver the skills needed for ‘our areas’ growing green economy;
- The Council’s Empowering Communities Team has worked with charities and voluntary organisations to engage with more than 500 residents to support their mental well-being;
- The Council became the first area in the Tees Valley to launch an award-winning scheme to give extra support to fostered children and their families;
- The Regent Cinema opened its doors to the public in October 2024 and also won ‘Building Project of the year’ at the Constructing Excellence North East awards;
- South Tees Safeguarding Children’s Partnership - a multi-agency partnership between Middlesbrough Council, Redcar & Cleveland Council, Tees Valley Clinical Commissioning Group (now ICB), and Cleveland Police. It aims to support and enable local organisations and agencies to work together in a system which places the child at the heart of the process, with a key focus on both improving practice, and enhancing outcomes for children and their families;
- Working in Partnership with other North East councils to procure an ‘Energy from Waste’ Facility which is expected to be located in the Borough and will go live from 2026;
- The Council has worked with the Redcar Town Deal Board to develop multi-million plans to transform Redcar, which include creating an outdoor adventure play area, coastal activity hub adventure golf and a major leisure attraction.
- No Wrong Door Partnership with North Yorkshire County Council to develop more robust arrangements for supporting children in care to optimise a child’s development and outcomes.
- Children and Young People’s Partnership Board - a local multi agency meeting of statutory partners, including the police, education and health with responsibility for delivery of the council’s early help strategy to support children and young people;

- The South Tees Changing Futures programme is a joint initiative by Middlesbrough and Redcar & Cleveland Councils enabling all local organisations to work in partnership to better support those who experience multiple disadvantages.

As noted on the previous page, there are performance management arrangements in place to monitor performance against expectations and ensure action is taken where necessary to improve,

The Council’s vision, priorities and outcomes are communicated directly to residents through a variety of media and includes for example:.

- Delivering ‘This is Redcar & Cleveland’ residents’ magazine periodically to all households in the Borough;
- Publishing key documents and strategies on the website, including the Annual Statement of Accounts and financial and performance out-turns;
- Undertaking statutory consultations on issues such as the budget;
- Promoting Council services and activities through social media;
- Conducting formal periodic residents’ surveys.

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

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 staff to ensure compliance with legislation, professional standards and internal policies. A legal and procurement team provides advice on all relevant procurement decisions. A brokerage team support the procurement of adult and children social care packages. There is a Procurement Strategy in place to meet the Council’s wider objectives and Contract Procedures Rules. Contract procedures rules are set out within the Council’s constitution.

The Council has outsourced key functions to provide resilience and cost efficiencies. For example, revenues and benefits and internal audit and counter-fraud services.

There is evidence that the Council has arrangements in place to ensure procurement is in accordance with relevant legislation, professional standards and internal policies.

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

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. We are unable to respond to NAO until we have issued our audit opinion **[not yet issued]**. As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

The NAO timetable for 2022/23 WGA is for completion by the end of October 2024, so we anticipate receiving the clearance which will enable us to issue our audit certificate by this date.

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 Governance Committee in September 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows: **The fees as they currently stand make no allowance if extra work is needed once again in relation to the PF auditor assurance, once received.**

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice – PSAA scale audit fee	£95,733	£95,733
Recurring increases in the base audit fee arising from regulatory pressures (as reported in the 2019/20 audit, from 2021/22 we increased this fee by 25% to reflect a 25% increase in the PSAA fee rates for this work)	£17,978	£17,978
Additional fees in respect of the new VFM approach (recurring, as agreed from the 2020/21 audit)	£10,000	£10,000
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring, as agreed from the 2020/21 audit)	£4,400	£4,400
Additional fees for the valuation of property, plant and equipment (extended valuations process in both 2021/22 and 2022/23) (not recurring)	£6,300	£5,400
Additional fees in respect of the Council's infrastructure (additional work required in relation to the national issue in this 2021/22 audit only – not recurring)	£10,000	£nil
Additional fees in respect of the issues with Pension Fund auditor assurance, the updating of accounts for triennial pensions, and follow up of the PF auditor's letter – not recurring.	£7,000	£Nil
Additional fees in respect of the issues with the disclosure of a Pension fund asset for 2022/23 – not recurring	£Nil	£4,000
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time) – not recurring	£Nil	£7,500
Total fees	£151,411	£145,011

* The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).

4. Other reporting responsibilities and our fees

Fees for other work

We confirm that we have undertaken the following audit-related assurance services for the Council in 2022/23:

- Housing Benefit Assurance - £14,250 plus VAT (£12,950 in 2021/22); and
- Teachers Pension Assurance - £5,320 plus VAT (£4,840 in 2021/22).



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates and judgements impacting 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. <p>Overall findings</p> <p>We did not identify any material issues to report.</p>
<p>Pensions – net defined benefit valuation</p> <p>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. This results in an increased risk of material misstatement.</p> <p>For 2022/23, a net asset position is being reported for the LGPS for the first time.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • discussing with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally; • reviewing the appropriateness of the key assumptions included within the valuations, comparing them to expected ranges and reviewing the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements; and • We also sought assurance from the auditor of the Teesside Pension Fund. <p>Overall findings</p> <p>We did not identify any material issues to report.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings - continued

Risk

Valuation of land and buildings

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 a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.

We have therefore identified the valuation of PPE to be an area of significant risk.

Our audit response and findings

We addressed this risk by

- assessing the Council's arrangements for ensuring that land and building valuations are reasonable;
- assessing the methodology and basis of the valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuer including those assets not subject to valuation in 2022/23;
- considering the competence, skills and experience of the Valuer; and
- testing a sample of valuation movements to gain assurance that the accounting treatment is appropriate and there is sufficient evidence to support source data.

Overall findings

We identified one material error for £11.1m relating to the accounting treatment of valuations where there have been transfers from land and buildings to investment properties in year. Within the comprehensive income and expenditure statement (CIES), the £11.118m is moved from the financing and investment line to the net cost of services. There is therefore no overall impact on the surplus/deficit line of the CIES.

We have also identified one non-trivial unadjusted error for £3.356m and this is set out on the following page.

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of unadjusted misstatement
1	Debit: Revaluation reserve			3,356		Depreciated replacement costs (DRC) valuations of land and buildings did not include location factors or external works which would normally be expected in DRC valuations.
	Credit: Land and buildings				- 3,356	The revised DRC valuations were £128.792m which were £3.356m lower than the original DRC valuations of £132.148m. As this is not material, management has decided not to adjust the financial statements.
	Total unadjusted misstatements			3,356	-3,356	

A. Further information on our audit of the financial statements

Internal control observations

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

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

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

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

Significant deficiencies in internal control – Level 2

Description of deficiency

There were 5 Officer related party declarations not completed for 2022/23.

Potential effects

There could be undisclosed related party transactions.

Recommendation

Officers should return their declaration of interest forms as soon as possible to avoid delays in accounts preparation and audit. There should be arrangements in place to capture this information should any employee or member leave the Council during the period.

Management response

The Council took a range of proactive measures to chase up incomplete returns. The remaining outstanding officer returns relate to officers who have since left the local authority or left immediately before or just after the end of the financial year in question.

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency: Software testing documentation Level 3

Changes are tested by developers and submitted to user testing on a Teams call. However, tests are not documented.

Potential effects

Unauthorised changes are deployed, compromising the confidentiality, integrity and availability of information.

Recommendation

In order to ensure traceability and accountability of changes being deployed, as well as to support the monitoring process, we recommend documenting the testing performed, and formalising the user acceptance.

2022/23 update

The Council has developed the new test script and has been trialled during the last Agresso update. Full implementation for this will be in force for The Agresso Version 12 update (due by end of March 2024) and our team will save the collection of info from all workstreams on the one form.

This will make sure any system changes go through the appropriate processes by officers that know the subject matter.

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

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