

Audit Completion Report

Redcar and Cleveland Borough Council

Year ended 31 March 2021

December 2021



Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Audit approach
- 04** Significant findings
- 05** Internal control recommendations
- 06** Summary of misstatements
- 07** Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

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Members of the Governance Committee
Redcar and Cleveland Borough Council
Redcar and Cleveland House
Kirkleatham Street
Redcar
TS10 1RT

3 December 2021

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Dear Sirs

Audit Completion Report – year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 26 April 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07896 684 771.

Yours faithfully

Gavin Barker

Gavin Barker
Director
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 04 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Net defined benefit liability valuation; and
- Valuation of land and buildings.

Section 05 sets out internal control recommendations and section 6 sets out audit misstatements. Section 07 outlines our work on Redcar and Cleveland Borough Council's (the Council) arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021 apart from those areas set out as outstanding in section 02. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions.



Audit opinion

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

We are yet to complete our work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Further detail on our Value for Money work is provided in section 7 of this report



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



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. No questions or objections have been received.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices





02




Section 02:

Status of the audit

2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Pensions		We are awaiting the pension fund letter of assurance from the auditors of Teesside Pension Fund.
Other audit work not yet completed		Related Party Transactions, IT General Controls.
Whole of Government Accounts		As noted in the previous section, we are unable to complete our work on the Council's WGA Return until we receive guidance from the NAO which is expected in December.
Closing procedures		Review of the revised financial statements and consideration of any post balance sheet events.

-  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.



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £7.616m for the Council using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements is £7.548m for the Council using the same benchmark.

Use of experts

There are no changes to our planned approach since issuing our Audit Strategy Memorandum as set out below:

Item of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Land and Building (PPE) valuation	Internal valuer for the Council	
Financial instrument disclosures	Arlingclose	

Service organisations

There are no changes to our planned approach since issuing our Audit Strategy Memorandum as set out below

Item of account	Service organisation	Our approach
Revenues and benefits	Liberata	Substantive testing of material items of accounts derived from the revenues and benefits system.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 14 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;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risk – management override of controls

Management override of controls	Description of the risk
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates 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>Audit conclusion</p> <p>There are no significant issues arising from our work that we are required to report to you.</p>



4. Significant findings

Significant risk - Net defined benefit liability (pensions)

Defined benefit liability (pensions)	Description of the risk
	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	How we addressed this risk
	We: <ul style="list-style-type: none">evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary;considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation;considered the adequacy of the pensions disclosures in the financial statements; andsought assurances from the auditor of the Teesside Pension Fund.
	Audit conclusion
	There was one material amendment which was due to an updated Actuary's report and this is covered in more detail in section 06. We are still awaiting a response from the auditor of the Teesside Pension Fund before we can conclude on this area.



4. Significant findings

Significant risk – Valuation of land and buildings

Valuation of land and buildings	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 land and buildings. 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 land and buildings due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of land and buildings to be an area of significant risk.
	How we addressed this risk We: <ul style="list-style-type: none">• assessed the Council's arrangements for ensuring that land and building valuations are reasonable;• assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuer;• considered the competence, skills and experience of the Valuer; and• tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate.
	Audit conclusion There are no significant issues arising from our work that we are required to report to you.



4. Significant findings

Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council on 15 July 2021, ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

Significant matters discussed with management

There were no significant matters discussed with management.

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.

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 2020/21 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. No such objections or questions have been raised with us.



05

Section 05:

Internal control recommendations

5. Internal control recommendations

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 controls 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 controls 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.

We assign priority rankings to our recommendations to reflect the importance that we consider each poses to the Council as set out in the table below:

Priority ranking	Description
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.
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.

Our work has identified one control deficiency for 2020/21.

Description of deficiency: Valuations **Level 2**

10 assets should have been revalued in 2020/21 but due to the incorrect dates input into the control spreadsheet these were not. The amounts are not material and no other assets were affected.

Potential effects

There could be material differences in the year end valuations of Council assets.

Recommendation

Reconciliations should be undertaken to ensure that there are no assets omitted from the rolling programme and annual valuations of Council assets.

Management response

Procedures will be strengthened to ensure that this does not happen again.

5. Internal control recommendations

There were three control deficiencies identified in 2019/20 to follow up.

Description of deficiency: Declarations of interest - Members

We noted that, at the date of preparing this report, 22 Members out of 59, and 7 officers out of 56, had not yet returned their declaration of interest forms for the 2019/20 year. These are used by the Council to prepare the related party disclosures in the financial statements, and are important evidence for the audit. We recognise that the exceptional circumstances surrounding the Covid-19 pandemic may explain the delay, but we need all returns to be received before we can issue our audit opinion.

Potential effects

There could be undisclosed related party transactions.

Recommendation

Members and officers should return their declaration of interest forms as soon as possible to avoid delays in accounts preparation and audit.

Management response

Members declarations for 2019/20 were received prior to completion of the 2019/20 audit. All member declarations were received for the 2020/21 apart from 1 which we are expecting prior to completion.

Description of deficiency: Bank Reconciliation

The year end bank reconciliation provided at audit included unreconciled differences of £473k between the bank and the general ledger. This was primarily because the reports supporting the bank reconciliation were run at different times. Officers subsequently identified the differences and the bank reconciliation now reconciles. In addition, the bank reconciliation itself is not presented in a format which enables us to easily understand and test the key components.

Following further analysis as part of our audit work, there are a number of entries within the bank reconciliation which appear to be incorrect. There are potentially material errors. However, these do not appear to affect the Comprehensive Income and Expenditure Statement or the Council's overall general fund balances as the impact is between cash, debtors and creditors. Officers are undertaking additional work to determine the full extent of these errors and it is possible that a further amendment to the accounts may need to be tabled at the Governance Committee meeting before the financial statements are approved by Members.

Potential effects

The bank reconciliation is a key control and any unreconciled differences may be an indication that the bank and the general ledger are not fully reconciled. There may be material errors in the financial statements.

Recommendation

Work needs to be completed by officers to resolve the potential errors identified in the 2019/20 accounts before the financial statements are approved by the Governance Committee.

In future, the bank reconciliation should be presented in a recognisable format and all differences should be investigated and reconciled.

Management response

Officers resolved the issues identified in 2019/20. The presentation of the bank reconciliation has improved in 2020/21 and there are no further control deficiencies to report.

5. Internal control recommendations

Description of deficiency: Access controls

We inspected a full listing of “Active Directory Users” and noted the following:

- 1,578 user ids out of a total 5,054 users which have not been logged into at all, of which 254 users were marked as Disabled;
- 1,234 user ids out of a total 5,054 users had a Last Login Time of 2018 or earlier;

Many of the above user ids have generic user names, in many cases because they are generic/shared mailbox accounts but in some case they are not. Management acknowledged that there are some historical Active Directory users/objects that have been dormant/inactive for some time and these appear to be ones that have not gone through due process to remove them.

Potential effects

There are potentially users on the system that no longer work for the Council or are not entitled to access. Equally, the use of generic descriptions for user names facilitates potentially unattributable access and activities.

Recommendation

Active Directory users should be reviewed and removed if no longer required. Where feasible, user ids should have attributable/unique descriptions to enable the linkage between a user and their user account. Accounts that are not used for 90 days, should be subject to automatic disabling unless there is a justified business rationale for them remaining active.

Management response

A revised SLAM (Starters Leavers and Movers) process is in operation to maintain consistency between Payroll, Human Resource records in Agresso and Active Directory, although we are sometimes asked to hold accounts open for departed staff while decisions on data email etc are considered by the directorate. The delay in undertaking the Active Directory review was due to the excessive workload generated by the Cyber Attack, and lack of resources available during the pandemic. User accounts are by default allocated to an individual, and shared & generic accounts are used only when it would be impractical to allocate individual accounts. IT are currently looking at tools to automate the disabling of accounts after 90 days of inactivity.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £226,000 for the Council. There are no unadjusted misstatements to primary statements 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.

Adjusted misstatements identified during the course of the audit above the trivial threshold are shown in the table below.

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Unusable reserves – Pensions			7,634	
	Cr: Other long terms liabilities – Pensions				7,634
The draft financial statements included pensions figures based on the original Actuary's Report which included estimates of the fair values of assets. When the actual figures were available, the Actuary issued a revised report which has resulted in material amendments to the accounts. There are corresponding adjustments to the CIES and Movement in Reserves Statement and amendments to note 36 Defined Benefit Pension Schemes.					
Total unadjusted misstatements		0	0	7,634	7,634

6. Summary of misstatements

Disclosure amendments

Our audit work identified a number of amendments to disclosures, which included.

Note 34 Capital Adjustment Account: Use of capital reserves totalling £3.161m does not agree to note 6 which shows £3.745m. This is because the write down of the long term debtor of £292k is shown as a credit instead of a debit in the capital adjustment account. Once amended the correct figures of £3.745m and £292k are shown in the capital adjustment account and are consistent with note 6 and underlying records.

Note 29 Creditors: Testing identified one creditor item for £1m that had been classified as 'other local authority' but actually related to Central Government.. We extended our testing and did not identify any further classification errors above the level of triviality. This impacts on the disclosure note only and not the balance sheet. The note was amended accordingly.

Note 4 Assumptions made about the future and other sources of estimation uncertainty: The note cited a material valuation uncertainty in respect of land and buildings, however this can now be removed for 2020/21. The note has been amended.

Annual Governance Statement: We note that Internal Audit reported a significant control weakness which was considered relevant to the preparation of the 2020/21 Annual Governance Statement:. Internal Audit reported that there have been very few staff declarations of interest in the last 10 years and policies relating to this area are not effectively disseminated to staff. In addition, gifts and hospitality forms do not always include a decision on acceptance, whether it was appropriately authorised, the value and the justification for the decision. The Annual Governance statement has been amended to reflect the identified control weakness.



07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work to date.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

Status of our work

In acknowledgement of the additional pressures on local government bodies and their auditors as a result of the pandemic, in April 2021, the National Audit Office updated its guidance for auditors and amended the timetable for reporting on VFM arrangements. Auditors are now required to issue the Auditor's Annual Report for local government bodies, including the new commentary required on VFM no later than three months after the auditor's report on the financial statements is signed.

To allow our firm to complete its quality assurance and consistency processes, and to ensure appropriate VFM reporting across our local government clients in the first year of the new approach to VFM under the Code of Audit Practice 2020, we propose to take advantage of the extended deadline, meaning that we will now report on VFM at a later date. Consequently, we are yet to complete our work in respect of the Council's VFM arrangements for the year ended 31 March 2021.

One consequence of not completing our VFM work at this stage, is that we will be unable to issue our audit certificate which formally concludes and closes the audit, and this delay is highlighted in the draft audit report at Appendix B. We have already issued an Audit Letter setting out the reasons why we are not issuing our Auditor's Annual Report and VFM commentary at the same time as our audit report.

We will report the outcome of our work on the Council's VFM arrangements in our commentary on those arrangements within the Auditor's Annual Report. We plan to present the Auditor's Annual Report to the Governance Committee in due course. We will also issue an audit completion certificate and this will set out any matters which we are required to report by exception in the form of significant weaknesses identified and recommendations for improvement, if required.



7. Value for Money

Risks of significant weaknesses in arrangements

In our Audit Strategy Memorandum we reported the risks of significant weaknesses in arrangements that we had identified as part of our planning procedures. We have not identified any additional risks of significant weaknesses in arrangements. Our responses to date in respect of the identified risks is outlined in the table below.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Work undertaken and conclusions reached to date
<p>1 Revenue Reserves</p> <p>We recognise the efforts that have been made to reduce the reliance on the reserves in the Medium Term Financial Plan (MTFP). However, the level of usable revenue reserves in monetary terms is now at a very low level for a Council with a full range of local services and for the risks that it faces both now and in the future.</p> <p>There is a risk that the revenue reserves may not be sufficient to manage the financial challenges in the medium term.</p>	●			<p>Work undertaken</p> <p>We have reviewed the financial plan and outturn position for 2020/21. The Council initially planned to replenish reserves in 2020/21 by circa £1.3m but the outturn position shows an increase in reserves of £13.7m from £18.03m to £31.71m. During 2020/21, the Council received £3.68m to fund costs linked to the Cyber-attack as well as Covid grants to fund specific aspects of the Council's response to the Pandemic. In addition, during the year the Council had to divert staffing and commission resources to meet the demands of the pandemic. This resulted in underspends in other areas as the Council reduced activities and staff vacancies were not filled. This has contributed to an improved reserves position in 2020/21 and a much healthier financial position than in previous years.</p> <p>We have reviewed the Council's medium term financial plan (MTFP) from 2021/22 onwards. The Council has set a 2 year balanced plan which takes into account the risks around demand pressures, funding and the external risks that the Council faces. A key element of the medium term plan has been to promote financial resilience and sustainability with no undue reliance on reserves although there will be some use of earmarked reserves. Nevertheless, the reserves position at the end of the MTFP in March 2023 is forecast to be circa £28m. The Council is currently working on a new 5 year medium term financial strategy from 2022/23.</p> <p>Conclusions</p> <p>We have not identified any significant weaknesses in arrangements at this time but as noted previously, work is continuing in this area.</p>



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter – Redcar and Cleveland Borough Council

To: Mr Gavin Barker
Director
Mazars LLP

Date:

Redcar and Cleveland Borough Council - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Redcar and Cleveland Borough Council (the Council) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Assistant Director Finance (Section 151 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 that have a material effect on the financial statements 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.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix A: Draft management representation letter (Council)

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or 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.

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 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 the Code and applicable law.

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



Appendix A: Draft management representation letter (Council)

Fraud and error

I acknowledge my responsibility as Assistant Director Finance (Section 151 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 financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council 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 financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council’s assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

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.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2020/21 in relation to the Council’s PFI schemes that you have not been made aware of.



Appendix A: Draft management representation letter (Council)

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, 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 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 financial statements.

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. These are attached in Appendix A. [PLEASE ATTACH APPENDIX SHOWING UNADJUSTED MISSTATEMENTS, if applicable]

Yours faithfully

Assistant Director Finance (Section 151 Officer) :

Date:



Appendix B: Draft audit report (the Council)

Independent auditor’s report to Redcar and Cleveland Borough Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Redcar and Cleveland Borough Council (Council) for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the Collection Fund 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of the Council’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 2020/21.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Assistant Director Finance (Section 151 Officer)’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Assistant Director Finance (Section 151 Officer) with respect to going concern are described in the relevant sections of this report.



Appendix B: Draft audit report (the Council)

Other information

The Assistant Director Finance (Section 151 Officer) 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.

Responsibilities of the Assistant Director Finance (Section 151 Officer) for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director Finance (Section 151 Officer) 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 2020/21, and for being satisfied that they give a true and fair view. The Assistant Director Finance (Section 151 Officer) is also responsible for such internal control as the Assistant Director Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Assistant Director Finance (Section 151 Officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Assistant Director Finance (Section 151 Officer) is responsible for assessing each year whether or not it is appropriate for the Council 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.



Appendix B: Draft audit report (the Council)

We evaluated the Assistant Director Finance (Section 151 Officer)'s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance Committee, the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Assistant Director Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Appendix B: Draft audit report (the Council)

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2021.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not reported any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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 the use of resources. 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 the use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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.



Appendix B: Draft audit report (the Council)

Use of the audit report

This report is made solely to Redcar and Cleveland 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 Redcar and Cleveland Borough 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 Redcar and Cleveland Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot 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; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

December 2021



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.



Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	<p>We have not identified any evidence to cause us to disagree with the Assistant Director Finance (Section 151 Officer) that the Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Gavin Barker, Director

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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.

*where permitted under applicable country laws.