

Middlesbrough Council
Draft report to the Audit
Committee on the 2007/2008
Audit
24 September 2008

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Executive summary

Introduction

We have pleasure in setting out in this document our report to Middlesbrough Council (the Council) for discussion at the meeting scheduled for 24 September 2008.

This report summarises the principal matters that have arisen from our audit of the Council's financial statements for the year ended 31 March 2008 and on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

We have substantially completed our audit in accordance with our Audit Plan.

Certain procedures are still outstanding and need to be finalised before we can finalise our audit opinion:

1. final review of the accounts;
2. review of teachers pension return;
3. completion of post balance sheet events review;
4. completion of technical review procedures; and
5. receipt of Management Representation Letter.

Subject to the satisfactory completion of points 1 to 5 above we anticipate issuing an unqualified audit opinion for the financial statements. We also anticipate that we will be issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in use of resources as based on discussions with management and our work to date, there has been no change in arrangements at the reporting date. The draft auditors' report, covering both the aforementioned opinion and conclusion, is contained in Appendix 3.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from the completion of these matters. Furthermore, we request that you undertake to inform us of any significant matters that arise prior to the date of our opinion.

We will issue a separate opinion on the whole of government accounts by 1 October.

We have also completed our audit of the pension scheme, there were no significant issues noted and we expect to issue an unqualified opinion on these accounts.

Executive summary (continued)

Key areas of judgement and audit focus

We have identified the following key judgement areas as being critical to the 2007/08 accounts:

- revenue recognition (presumed risk in accordance with auditing standards);
- management override of controls;
- classification of reserves and provisions in accordance with FRS 12;
- valuation of the equal pay reserve;
- changes to the accounting framework and standards;
- held for sale assets;
- reconciliation of the Housing Benefit and Council Tax subsidies to the Statement of accounts;
- risk of overstatement of grant income claimed from central government;
- valuation of community assets;
- recoverability and valuation of debtors.

Further details are provided in Section 1.

Financial Standing

The Council's financial standing has been assessed, as the financial stability of the Council is of significant public importance. No evidence has come to our attention to suggest that the Council will not be a going concern through 2008/09. Further details are provided in Section 2.

Executive summary (continued)

Audit adjustments

Our quantitative materiality for the 2008 audit was £3,590,899.

We report all individual identified misstatements in excess of 2% of materiality (£71,818) and all other identified errors in aggregate. We consider identified misstatements in qualitative as well as quantitative terms.

Identified unadjusted misstatements decrease the Income and Expenditure account surplus by £344,450.

Management have concluded that the total impact of the unadjusted misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Full details of the audit adjustments whether recorded or not are included in Appendix 2.

Accounting and internal control systems

Our planning work identified that the control environment was sufficiently robust to enable us to place reliance on controls in 2007/08. There were issues noted around individuals granted with super user access however this risk was sufficiently mitigated and is discussed further in section 1.

Conclusion on arrangements for securing economy, efficiency and effectiveness in use of resources

Under the Code of Audit Practice 2005 (the Code), auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management arrangements and financial management arrangements. The Code criteria link directly to the key lines of enquiry (KLOE) and auditor assurances to be applied.

For the purposes of the conclusion required by the Code, auditors are required to apply a yes/no assessment to the applicable Code criteria, i.e. the audited body either has proper arrangements in place or not.

We have concluded that the Council has met the applicable Code criteria.

Further details on the evaluation against the relevant criteria are provided in Section 5.

Executive summary (continued)

Other work including Best Value Performance Plan and Grants

Our scope of work includes a review of Data Quality arrangements and certification of grant claims. The work is currently ongoing and opinions will be issued in line with our audit plan.

As incoming auditors this year we have not completed a review of the Best Value Performance Plan. This was undertaken by the previous auditors.

Independence

In our professional judgement we are independent within the meaning of APB Ethical Standards and the objectivity of the audit engagement partner and audit staff is not impaired. Details of our consideration of independence, including fees for non-audit services, are included in Section 7 and Appendix 4 respectively.

1. Key areas of judgement and audit risk

The results of our audit work on key issues and judgements are set out below.

Matters that give rise to the need for specific representation in the management representation letter or that result in an audit adjustment are highlighted in the 'Deloitte Response' section for each issue.

Key issue	Background
Revenue Recognition	International Standards on Auditing (UK and Ireland) require the auditor to presume that there is a risk of fraud in revenue recognition, and to perform specific procedures to address this risk. We have focussed on grant revenue recognition.
	Deloitte Response
	We did not identify any significant issues with regard to revenue recognition in general, or within our specific focus area of grant revenue recognition.

1. Key areas of judgement and audit risk (continued)

Key issue	Background		
Management Override of Controls	<p>International Standards on Auditing (UK and Ireland) require the auditor to presume that there is a risk of fraud in relation to management override of controls, and to perform specific procedures to address this risk.</p> <p>Through our assessment of General Computer Controls it was noted that a number of users within the SAP system have overriding access. The authorisation of transactions posted by these users has not been subject to the normal approval processes.</p> <th data-bbox="488 587 2051 643">Deloitte Response</th> <td data-bbox="488 659 2051 941"><p>The focus of our audit procedures was to address the risk of financial reporting fraud, by reviewing in more detail areas such as accruals, provisions, accounting estimates and unusual transactions. In response to this risk, focussed substantive testing of these balances was performed. This involved reviewing key estimates for evidence of management bias and checking a selection of journal entries from throughout the year for appropriate accounting treatment.</p><p>To address the risk of unauthorised postings by the SAP super users, all transactions posted by these users were identified. A sample of the postings was selected for detailed testing, and we were able to confirm that the postings had genuine business rationale and were posted correctly.</p><p>We did not note any issues with regard to management bias or appropriateness of journals.</p></td>	Deloitte Response	<p>The focus of our audit procedures was to address the risk of financial reporting fraud, by reviewing in more detail areas such as accruals, provisions, accounting estimates and unusual transactions. In response to this risk, focussed substantive testing of these balances was performed. This involved reviewing key estimates for evidence of management bias and checking a selection of journal entries from throughout the year for appropriate accounting treatment.</p> <p>To address the risk of unauthorised postings by the SAP super users, all transactions posted by these users were identified. A sample of the postings was selected for detailed testing, and we were able to confirm that the postings had genuine business rationale and were posted correctly.</p> <p>We did not note any issues with regard to management bias or appropriateness of journals.</p>

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Classification of reserves and provisions	<p>The Council has a number of Earmarked reserves, some items of which have the characteristics of a provision in line with FRS 12.</p> <p>The SORP states that a provision should be established if the authority has a present obligation as a result of a past event that binds the authority to transfer economic benefits as a result of statutory provisions, or contractual terms or an event that, arising from the authority's actions, creates a valid expectation amongst another party that the authority will transfer economic benefits as a result of it accepting certain responsibilities.</p>
	Deloitte Response
	<p>We performed a detailed review of the Earmarked Reserves and assessed each of the reserves against the criteria of the SORP and FRS 12. Following this review it was noted that three reserves met the criteria of a provision; Human Resources Initiative and Equal Pay Reserve totalling £2.6m, Building Schools for the Future £563k and the Capital Grants Reserve £528k.</p> <p>The review of the above reserves indicated that there is a present obligation as a result of a past event which would result in the likely outflow of economic benefits. As such the appropriate accounting treatment is to classify the above liabilities as provisions. We understand The Council had previously adopted the treatment within Earmarked reserves following instructions from the previous auditors but noted our comments regarding these balances and have subsequently adjusted the accounts.</p>

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Valuation of Equal Pay Reserve	<p>The council has been subject to a number of single status equal pay claims which are still ongoing. There is therefore a risk of understatement of liabilities in respect of these claims.</p> <p>Deloitte Response</p> <p>The Council is currently within Phase 2 of the equal pay process whereby employees on scale SO1 (£22k) to POD (£40k) are being assessed. This phase was originally planned to be completed by the 1 April 2007, therefore any pay awards are back dated to this date.</p> <p>The equal pay valuation process was reviewed for reasonableness with no issues noted.</p>
Key issue	Background
Changes to Accounting Framework and Standards	<p>The financial statements of all local authorities must meet the accounting requirements of the Local Government Statement of Recommended Practice (the SORP).</p> <p>There were a number of significant changes in the SORP from the prior year the introduction of a Revaluation Reserve and the introduction of financial instruments standards.</p> <p>Deloitte Response</p> <p>The Council has complied with the SORP in the production of the 2007/08 accounts.</p>

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Assets held for Sale	<p>The SORP stipulations in regards to Assets held for Sale have altered in the current period. If there is an active market for the assets then they should be valued at their fair value. Adjustments to the value of assets held for sale are made through the Available for Sale asset account within reserves. There is a risk that management's assumptions in regard to fair value are inaccurate, and that the entries posted to the asset held for sale account are not in line with the SORP.</p>
	<p>Deloitte Response</p>
	<p>Assets held for sale are valued at market value by the Mouchel in house valuers. The team leader is a RICS qualified surveyor, who reviews and signs off each of the valuations performed by his team. No issues were noted in testing.</p>

Key issue	Background
Reconciliation of Housing Benefit and Council Tax subsidies to Statement of Accounts	<p>Internal Audit testing performed in the year found that Housing Benefits and Council Tax subsidies could not be reconciled to SAP or the statement of accounts. There is a risk that the revenue claimed from central government is misstated.</p>
	<p>Deloitte Response</p>
	<p>Our testing revealed no issues.</p>

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Overstatement of grant income claimed from central government	There is a risk that benefits are granted to persons who are ineligible to receive them. As this income is recovered from Central Government through the grant system there is a risk that the revenue claimed is overstated.
	Deloitte Response
	Deloitte performed focussed testing in this area no issues were noted.

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Valuation and Recoverability of Debtors	<p>The council has a year end Council tax debtor of £7.3m. The debtor ageing profile was reviewed by Deloitte and found to include debts that have aged considerably; the earliest debts dating back to 1993. Since the aged debtors were greater than three years old, a 100% provision was in place against them. Hence, the net effect of the aged debt is zero on the balance sheet. However, debts of this age are highly unlikely to be recovered and as such a write off may be required.</p>
	Deloitte Response
	<p>The aged council tax debt was reviewed and discussed with the client. Deloitte sought valid reasons for keeping the aged debt on the ledger. After reviewing the recoverability of aged debtors, Deloitte believed it would be prudent to write off debts over 6 years old as such debtors are highly unlikely to be recovered. As the debts have been provided for in full this has no effect on the accounts.</p>

1. Key areas of judgement and audit risk (continued)

Key issue	Background
Fixed Asset Register – Community Assets	<p>The Council have posted a brought forward adjustment in relation to Community Assets, which were not previously recognised on the Council's asset register. There are a large number of community assets, and a valuation process is being undertaken by the Council. As such there are a number of assets which have been brought onto the register with a nominal or nil book value.</p> <p>In addition the Statement of Recommended Practise (SORP) states that Community assets should be valued at historic cost. A number of the assets have been valued using current market value, departing from the SORP recommendations.</p>
	<p style="text-align: center;">Deloitte Response</p> <p>We performed a review of the asset register to determine whether the community assets were correctly included and determine whether the valuation of the assets was accurate and in line with the Statement of Recommended Practises.</p> <p>We concluded that additional disclosure was required to show that there are a number of assets which are held at a nominal value as a result of the valuation exercise not yet being complete, for which an upward revaluation is expected to be included in the 2008/9 accounts.</p> <p>The Statement of Recommended Practice recognises that it may be difficult for Authorities to value assets at historic cost as records may no longer be available. As such, it is acceptable practise to assume that the closing balance on the Fixed Asset Restatement Account (replaced by the Capital Adjustment Account in the 2007 SORP) is at historic cost. As the community assets have been shown as an adjustment to the brought forward asset register, effectively they are assumed to be included within the closing Fixed Asset Restatement Account and the valuation is in line with the Statement of Recommended Practises.</p>

2. Financial Standing

The Council's financial standing has been assessed, as the financial stability of the Council is of significant public importance.

Formal budget monitoring occurs on a quarterly basis and is the responsibility of the heads of department. Unexpected and significant variances are reported to the Director of Resources. Significant variances are reported by exception to the Executive Committee by the Director of Finance. This ensures that performance against budgets is monitored and that the financial standing and viability of the Council is reviewed. Our review of the outturn of 2007/08 against budget showed that the budgets were reasonably accurate with most variances being attributable to income streams that are inherently difficult to predict and demand led expenditure.

The Council has achieved £485,000 of savings in the year against budget. The use of temporary funding from reserves was also reduced from the anticipated £1,143,000 to £752,000. The General Fund at the end of 2007/08 stands at £5 million and the 2008/09 budget estimates that there will be no funding deficit. Therefore our conclusion is that financial standing is satisfactory.

Further details will be reported in our Annual Audit and Inspection letter.

3. Accounting and internal control systems

In planning and performing our audit of the financial statements we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We were not engaged to perform an audit of internal control over financial reporting and, therefore, we may not have noted all matters that might have been detected had an audit of internal control over financial reporting been performed.

For controls considered to be 'relevant to the audit' we evaluated the design of the controls and determined whether they had been implemented ("D&I"). The controls that are determined to be relevant to the audit were those:

- where we planned to obtain assurance through operating effectiveness; and
- relating to identified risks (including the presumed risk of fraud in revenue recognition).

In line with our Audit Plan we placed reliance on the Council's financial controls, in the following key business cycles:

- Expenditure
- NNDR
- Council tax

Where possible we have placed reliance on the work performed by Internal Audit on controls within these cycles.

Our work also involved, on a sample basis, detailed testing of all significant balances. We have looked to rely on external information and confirmations where possible, and hence reduce reliance on internally prepared information.

Overall, we determined that the controls on which we planned to rely were operating effectively during the year, and we completed our audit procedures in line with those proposed in the Audit Plan.

There are no significant findings regarding the Council's system of internal financial control that we wish to bring to your attention at this stage. More detailed findings will be reported in the Governance report to follow.

4. Corporate Governance review and our responsibilities

Annual Governance Statement

In June 2007 CIPFA in conjunction with the Society of Local Authority Chief Executives ("SOLACE") published 'Delivering Good Governance in Local Government: Framework'. This framework replaces the previous CIPFA/SOLACE framework 'Corporate Governance in Local Government – A Keystone for Community Governance: Framework' which was published in 2001.

The framework has introduced from 2007/08, an integrated Annual Governance Statement ("AGS"). This subsumes the requirements for the production of a Statement on Internal Control ("SIC").

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, including in particular those designed to ensure that:

- the authority's policies are implementing in practice;
- high quality services are delivered efficiently and effectively;
- the authority's values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

It therefore covers all of the areas previously covered by the SIC. However, it also covers performance issues - good governance is a precondition for delivering good services and poor service performance reflects a failure of governance.

Our review is directed at:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosure and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

We have reviewed the Council's AGS in line with the requirements above. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements and internal controls derived from our audit work.

5. Use of resources conclusion

5.1 Value for money (VFM) conclusion

The VFM conclusion

In accordance with the previous Code of Audit Practice, auditors are required to give a 'yes/no' opinion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This conclusion is given within our audit report on the Council's accounts.

The conclusion is limited to an assessment of twelve criteria specified by the Audit Commission. For each criterion, we use 'auditor assurances' to assist in arriving at our assessment. The 'auditor assurances' comprise a series of individual elements.

- In the case of eight criteria, these are identical to the elements needed to achieve a score of '2' for appropriate Use of Resources Key Lines of Enquiry (KLOEs) for the financial management, financial standing, internal controls and value for money themes. In reaching our conclusion on these, we performed sufficient work to allow us to conclude that the Council had reached the minimum levels required in each of the KLOEs.
- In the case of a further three criteria, the elements are drawn from areas of the Audit Commission's corporate assessment methodology.
- The final criterion summarises the results of the data quality work we perform as part of our 2007/08 audit plan. At the time of writing, this work was being finalised. However, based on the work performed to date we expect to issue an unqualified opinion in relation to this matter.

Anticipated VFM conclusion

At this stage we expect to issue an unqualified VFM conclusion.

6. Other matters for communication

Other requirements of International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") require we report on the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720	Other information in documents containing other audited financial statements

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

7. Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained.
- We report annually to the Council our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board for Accountancy (POBA) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POBA, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POBA and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings.

7. Independence policies and procedures (continued)

Independence policies	<p>Our detailed ethical policies, standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.</p> <p>Amongst other things, these policies:</p> <ul style="list-style-type: none">• state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients;• require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;• state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates;• prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and• provide safeguards against potential conflicts of interest.
Remuneration and evaluation policies	<p>Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.</p>

Confirmation of independence

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner, director and audit staff are not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2007 we confirm that we will comply with APB Ethical Standards for that period.

Details of our audit and non-audit services performed for the Council are detailed in Appendix 4.

8. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our audit work carried out in accordance with, the Code and the Statement of responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Middlesbrough Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use as Members for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for the controls over, and security of, the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte & Touche LLP

Chartered Accountants

Newcastle upon Tyne

24 September 2008

Appendix 1: Draft letter of representation

We ask that the Council notes the format of the letter below, and recommends that the Director of Resources can sign the letter on behalf of the Council.

(Letterhead)

Deloitte & Touche LLP

Gainsborough House

34-40 Grey Street

Newcastle upon Tyne

NE1 6AE

Our Ref: HW/MC

Date: 24th September 2008

Middlesbrough Council – Audit of the annual accounts for the year ended 31 March 2008

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Middlesbrough Council for the year ended 31 March 2008 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of Middlesbrough Council as of 31 March 2008 and of results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Council which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

Appendix 1: Draft letter of representation (Continued)

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Corporate Policy Management Board, and Scrutiny meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Council involving:
 - (i). Management;
 - (ii). Members of the Council;
 - (iii). Employees who have significant roles in internal control; or
 - (iv). Others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. We have considered the uncorrected misstatements detailed in the report to the Council. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
8. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the directors, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

Appendix 1: Draft letter of representation (Continued)

9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.
10. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to the Council and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.
11. We have considered all claims against the Council and on the basis of legal advice have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
12. No other legal claims have been received or are expected to be received that would have a material impact on the annual accounts.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
14. We confirm that we are of the opinion that the Council is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in the financial statements.
15. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
16. The financial statements are free from material misstatement.
17. There have been no events since the balance sheet date which necessitate revision of the figures included in the annual accounts or inclusion of a note thereto other than as disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.
18. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets.
19. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditors' report and for the controls over, and security of, the website. We also recognise that

Appendix 1: Draft letter of representation (Continued)

we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

20. We confirm that:
- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
 - all settlements and curtailments have been identified and properly accounted for;
 - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
 - the actuarial assumptions underlying the valuation of the scheme liabilities accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
 - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology;
 - the amounts included in the financial statements derived from the work of the actuary are appropriate.
21. We confirm that the methodology used by management to estimate the increase in value to fixed assets as a result of expenditure on those assets represents the best estimate of the value added.
22. We confirm that the Council does not own land which would be material to the financial statements.
23. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of Middlesbrough Council

Appendix 2: Audit adjustments

Unadjusted misstatements

The following unadjusted misstatements were identified during the course of our audit:

	Note	Inc/ (Dec) in net assets £'000	Inc/ (Dec) in reserves £'000	Charge/ (credit) in I&E income £'000	Charge/ (credit) in Collection Fund £'000
Non-Judgemental					
Reclassification of credit balances on the sundry debtors ledger	*				
Judgemental					
Carrying value of loans	[1]	(345)		345	
Total		(345)		345	

* This adjustment actually has no impact on the level of net assets as it is purely reclassifications of amounts within the balance sheet. We have shown the absolute value of the adjustment to enable readers to understand the magnitude of the reclassification. The total figure at the foot of the column does not include this amount as it has no impact on net assets as noted.

[1] Difference between the carrying value of loans using the effective rate rather than the coupon rate.

We will obtain written representations from the Council confirming that after considering all these unadjusted items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

Appendix 2: Audit adjustments (Continued)

Recorded audit adjustments

Management recorded certain adjustments which were identified during the audit. On the whole, these were adjustments for presentation purposes only, or minor corrections to the accounts. However the more significant adjustments are discussed below:

- Land at Trinity Crescent (£132,000) was sold during the year, however the asset was not removed from the asset register. This was due to manual registers being used at the year end rather than the normal automated SAP system.
- In the year the Riverside North, L1 site was revalued upwards (£184,000). It was subsequently revalued downwards, however this adjustment was not posted to the revaluation reserve, but to the capital adjustment account. This adjustment posts the value to the revaluation reserve to offset the original posting.
- Reclassification of reserves as provisions. As detailed in section 1 there were three earmarked reserves which fulfilled the criteria to be classified as provisions per FRS12. During the audit the adjustment was made to move these items to their correct classification. In order to aid comparability the prior year comparatives have also been restated. The entries required for this adjustment resulted in a change in net worth.

Appendix 3: Model Audit opinion for the Annual Accounts

Independent auditors' report to the Members of Middlesbrough Council

Opinion on the accounting statements

We have audited the accounting statements and pension fund accounts of Middlesbrough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 59. The Housing Revenue Account, the Collection Fund and the related notes 1 to 6. The Group Income and Expenditure Account, the Group Statement of Total Recognised Gains and Losses, the Group Balance Sheet, the Group Cash Flow Statement and the related notes 1 to 6. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20. The accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and independent auditors

The Responsible Finance Officer's responsibilities for preparing the statement of accounts, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and pension fund accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 the financial position of the Authority and its income and expenditure for the year; and the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Appendix 3: Model Audit opinion for the Annual Accounts (Continued)

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with the proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the accounting statements and pension fund accounts, and consider whether it is consistent with the audited accounting statements and pension fund accounts. This other information comprises and Review of 2007/08 Financial Year. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and pension fund accounts. Our responsibilities do not extend to any further information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and pension fund accounts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and pension fund accounts, and of whether the accounting policies are appropriate to the Authority's and pension fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and pension fund accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and pension fund accounts.

Opinion

In our opinion:

- the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom [200X], the financial position of the Authority as at 31 March 2008 and of its income and expenditure for the year then ended; and
- the pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Appendix 3: Model Audit opinion for the Annual Accounts (Continued)

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Middlesbrough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Appendix 3: Model Audit opinion for the Annual Accounts (Continued)

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Newcastle

24 September 2008

Best Value Performance Plan

As predecessor auditors the Audit Commission issued their statutory report on the audit of the authority's best value performance plan for the financial year 2007/08.

Appendix 4: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2007 to 31 March 2008 are as follows:

	2007/08 £	2006/07 £
Accounts	£169,000	n/a
Use of Resources	£15,000	n/a
Total Audit	£184,000	n/a
Grant Claim Certification	£45,000	n/a
Total		

** Grants fees are determined based on input at the Audit Commission's skill related fee rates. The Council has provided a list of grants requiring certification in 2007/08. The 2007/08 fee has been estimated based on the number of grants claims requiring certification.*

Deloitte.

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