

Financial Statements Report

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Report on the 2004/2005 Financial Statements to the Corporate Affairs Committee

Middlesbrough Council

Audit 2004/2005

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Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
 - expected modifications to the audit report;
 - unadjusted non-trifling misstatements and any material adjusted misstatements;
 - material weaknesses in accounting and internal control systems;
 - qualitative aspects of accounting practice and financial reporting;
 - matters required by other auditing standards to be reported to those charged with governance; and
 - other matters that we wish to draw to your attention.
- 2 We have agreed with Middlesbrough Council that the communications required under these auditing standards would be with the Corporate Affairs Committee. This report sets out for the council's consideration the matters arising from our audit of the financial statements for 2004/05.

Status of the audit

- 3 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 31 October 2005 (a draft report is attached at Appendix 1).
- 4 You should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and internal control systems or improvements that may be made, but have addressed only those matters that have come to our attention as a result of the audit procedures performed. Our audit does not seek to obtain absolute assurance that the financial statements present fairly your financial position or give assurance that they are accurate in every regard. In this context, we adopt a concept of materiality. We seek, in planning and conducting our audit of accounts, to identify material errors in your financial statements. Material errors are those that might be misleading to a reader of the financial statements and we have set the materiality level at £2, 200,000 for this audit. However, we may determine that certain items of account may be subject to a lower materiality level due to their political or numerical sensitivity.

Matters to be reported to those charged with governance

- 5 We have the following matters to draw to your attention.

Unadjusted or material misstatements

We are required to consider reporting unadjusted or material misstatements to you where these are material and are relevant to your governance responsibilities. In respect of the Council's 2004-5 financial statements, although a number of errors were identified during the course of our work, these related primarily to presentational issues and disclosures required by CIPFA SORP and BVACOP. They had no impact on the reported surplus or levels of balances.

Other matters that we wish to draw to your attention

Under the terms of SAS 610.3 we are required to report any relationships that may bear on the independence and objectivity of the audit team. There are no such potential conflicts of interest in respect of Middlesbrough Council.

We are also required to report to you the fees we have charged in respect of our 2004/2005 work, broken down over the three Audit Code of Practice elements and compared to the previous year. This information is given in the table below:

	2004/5	2003/4
Accounts	75,000	70,000
Governance	75,000	70,000
Use of resources	55,000	55,000
TOTAL - Audit	£265,000	£255,000
S35 work	0	20,000
Grant certification	£90,000	£90,000

Next steps

- 6 We are drawing these matters to your attention so that you can consider them before the amended financial statements are approved and certified. Management have undertaken to present amended accounts reflecting the correction of all 'non-trifling' misstatements identified during the course of our audit to the corporate affairs committee on 26 October 2005.

Appendix 1 – Audit opinion for a principal local authority that administers a pension fund

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Auditors' Report to Middlesbrough Borough Council

We have audited the statement of accounts on pages 3 to 104 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 98 to 104 and the Pension Fund accounts, on pages H to L, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 80 to 81.

This report is made solely to Middlesbrough Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

As described on page 11 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My/our responsibilities, as independent auditor/s, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I/we review whether the statement on internal control on page x reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for my/our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

| Auditors' Report to Middlesbrough Borough Council

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my/our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the statement of accounts presents fairly the financial position of Middlesbrough Borough Council as at 31 March 2005 and its income and expenditure for the year then ended.

In our opinion the financial statements present fairly the financial transactions of Teesside Pension Fund during the year ended 31 March 2005 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

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.

Signature:

Date:

Name:

Address:

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