

**Deloitte.**

**Middlesbrough Council  
Report to the Corporate Affairs  
Committee  
On the 2008/09 Audit  
23 September 2009**

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# Introduction

We have pleasure in setting out in this document our report to Middlesbrough Council ("the Council") for discussion at the meeting scheduled for 23 September 2009.

This report summarises the principal matters that have arisen from our audit of the Council's financial statements for the year ended 31 March 2009 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 housing benefit grant;
3. completion of NNDR grant testing;
4. completion of post balance sheet events review;
5. completion of technical review procedures;
6. receipt of Management Representation Letter;
7. SMGF and STGRL movements; and
8. completion and review of journal testing.

Subject to the satisfactory completion of points 1 to 8 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 2009.

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.

# Introduction (continued)

## Key audit risks

We have identified the following key judgement areas as being significant to the 2008/09 accounts:

- valuation and completeness of the equal pay liability;
- classification of reserves and provisions in accordance with FRS 12;
- recoverability and valuation of debtors;
- risk of overstatement of grant income and benefits paid to ineligible individuals;
- recoverability of short term investments in the current economic climate;
- risk of overstatement of investment income;
- valuation of fixed assets in the current economic climate;
- valuation of community assets; and
- management override of controls.

Further details are provided in Section 1.

## Other issues

We have also set out comments in relation to other issues which are discussed in more detail in section 2.

## Identified misstatements

Our quantitative materiality for the 2008/09 audit was £3,953,233.

We report all individual identified misstatements in excess of 2% of materiality (£79,065) 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 £222k

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 1.

# Introduction (continued)

## Disclosure deficiencies

Management has concluded that the impact of the disclosure deficiencies, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Details of the disclosure deficiencies are included in Appendix 1.

## 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 2008/09. As in the prior year 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.

## Other work and Grants

Our scope of work includes other audit work including the certification of grant claims. The work is currently ongoing and opinions will be issued in line with our audit plan.

## 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 4 and Appendix 2 respectively.

# 1. Key audit risks

The results of our audit work on key audit risks are set out below:

## **Key audit risk**

Valuation and completeness of Equal Pay Liability

## **Background**

The Council has been subject to a number of single status equal pay claims which are still ongoing. The Council denies there has been any discrimination or breach of the right to receive equal pay and is vigorously defending the claims brought against it. There is a deemed risk of understatement of liabilities in respect of these claims.

## **Deloitte response**

The completeness of the equal pay liability and the accuracy of the calculation were reviewed for reasonableness with no issues noted. The Council's accounting treatment for claims was reviewed against SORP guidance and found to be satisfactory. Confirmation of the Capitalisation Directive was obtained. Movements within the Provisions and Accrual Balances have been tested to supporting documentation.

# 1. Key audit risks (continued)

## Key audit risk

Classification of reserves and provisions

## Background

Historically the Council has had a number of Earmarked reserves, some items of which had the characteristics of a provision in line with FRS 12.

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.

## Deloitte response

We performed a detailed review of the Earmarked Reserves and assessed each of the reserves against the criteria of the SORP and FRS 12.

The review indicated all items are correctly classified as reserves.

# 1. Key audit risks (continued)

## Key audit risk

### Valuation and Recoverability of Debtors

#### Background

In the prior period, Deloitte reviewed the Council tax debtors ageing profile and noted it included debtors that had aged considerably; the earliest debts dating back to 1993. Since the debts were greater than three years old the Council had a 100% provision in place. Following an investigation into debtor recovery in the year, the Council now provide for only 90% of Council tax debtors aged greater than three years. Due to the age of the debt there is a risk a full provision or write off is required.

The economic downturn in the year and the failure of a number of businesses poses a risk around the recoverability of the NNDR debtor. Economic circumstances have seen many businesses going into administration and therefore the Council may have incorrectly provided for the outstanding NNDR debtors.

#### Deloitte response

The aged Council tax debt was reviewed and discussed with management. Deloitte sought valid reasons for keeping aged debt on the ledger and assessed the suitability of the provision. After reviewing the recoverability of aged debtors, it was found that a proportion of the significantly aged debt was being recovered and the provision in place was reasonable.

The NNDR debtor provision was reviewed and the recoverability of debtors assessed through specific testing. A provision is in place for NNDR debtors based on the age of the debtor and the stage of recovery. Balances that have progressed to the latter stages of the recovery process (e.g. where a summons or liability order has been issued) are provided for at a greater level. The testing and review indicated the provision and valuation of NNDR debtors was reasonable.



# 1. Key audit risks (continued)

## Key audit risk

Overstatement of grant income claimed from central government

## Background

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 have performed focussed testing in this area. Work on the Housing Benefit grant has not yet been finalised.

## Key audit risk

Recoverability of short term investments in the current economic climate

## Background

There is the possibility of banking institutions (in particular non-UK banks) coming into financial difficulty and therefore the recoverability of these investments being put at risk. A provision may be necessary to account for any loss of an investment.

## Deloitte response

Deloitte reviewed the short term investments held by both the Council and the pension fund and found no recoverability issues. Investments were agreed to bank confirmation letters. No cash deposits were held with Icelandic banks or failed institutions.

# 1. Key audit risks (continued)

## Key audit risk

Risk of overstatement of investment income

## Background

A significant proportion of pension income and Council interest income arise from short term investments. During the year the fall in interest rates was likely to have led to a fall in the investment income.

## Deloitte response

Investment income in the period has been reviewed for reasonableness. Income has fallen in the period due to lower cash balances and the fall in interest rates. Analytical testing on investment income has been performed and proved satisfactory. Additionally, specific detailed testing on investment income received was carried out and also proved satisfactory.

# 1. Key audit risks (continued)

## Key audit risk

Valuation of fixed assets in the current economic climate

## Background

The economic downturn and fall in property prices may have decreased the valuation of the Council's fixed assets. There is a risk that the Council's fixed assets may not be fairly valued at the year end and that further impairment may be necessary.

## Deloitte response

All Assets that are required to be held at Market Value as per the SORP have been valued by the RICS accredited Valuation Team at both the 1<sup>st</sup> April 2008 and the 31<sup>st</sup> March 2009. A sample of other assets which fall under the rolling valuation programme adopted by the Council have also been revalued during the financial year. Furthermore an impairment review has been carried out on by the Council resulting in a number of impairments being identified.

Deloitte have reviewed the work of the valuation team and have concluded that reliance can be placed on the valuers as experts. Deloitte have evaluated the scope and suitability of impairment review procedures and have identified no evidence for the need for further impairments.

# 1. Key audit risks (continued)

## Key audit risk

Valuation of community assets

## Background

In the previous audit, it was noted the Council posted a brought forward adjustment in relation to Community Assets, which had not previously been recognised on the Council's asset register. As such there were a number of assets which have been brought onto the register with a nominal or nil book value. The SORP states that Community assets should be valued at historic cost however the Council had valued a number of the assets using current market value, resulting in a departure from SORP guidelines.

## Deloitte response

As in the prior year we have recommended the Council disclose their departure from the SORP with regard to the valuation of the community assets at market value and their reason for it.

There are still some assets which are held at nil value as at the year end, however as community assets should be held at 'historic value'. Under ordinary circumstances, this value would be nil as many were gifted to the Council. The Council have advised us their will be further valuations carried out in the future to assign a value to items currently valued at nil value.

# 1. Key audit risks (continued)

## Key audit risk

### Management Override of Controls

#### Background

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.

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. Since raising this finding as part of the prior year audit the Council has amended the control during however this was not implemented at the start of the financial year.

#### Deloitte response

The focus of Deloitte 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.

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 reviewed to confirm the postings had genuine business rationale and were posted correctly.

We have not yet completed this testing therefore currently cannot conclude on the management bias or appropriateness of journals.

## 2. Other issues

### Other issue

Depreciation of Land Items

### Background

During the Fixed Assets testing Deloitte noticed a number of Assets included within the register at Nominal Value. Historically Land and Buildings had been held together as one asset within the register and the valuations were carried out on the site as a whole. In preparation for the IFRS conversion, assets have now been separated out within the register to include a separate land and building element. However since this has been carried out some of the assets have not been re-valued under the rolling scheme, therefore the value has been assigned to the building element until a full revaluation exercise occurs.

### Deloitte response

The implication of the prior treatment is that the value of the land element of these assets is being depreciated as if it were a building. This is a departure from SORP. However given that the estimated useful lives of buildings is 40 years and all assets not currently valued will be valued within the next two years the impact on the financial statements is unlikely to be material.

# 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.

We placed reliance on the Council's financial controls, in the following key business cycles:

- Expenditure
- NNDR
- Council tax
- Payroll
- Treasury

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.

# 4. Matters for communication to those charged with governance

## 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.



## 4. Matters for communication to those charged with governance (continued)

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

### **Independence**

We consider that we comply with APB Ethical Standards and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

### **Non-audit services**

We are not aware of any inconsistencies between APB Ethical Standards and the company's policy for the supply of non audit services or of any apparent breach of that policy.

An analysis of professional fees earned by Deloitte in the period from 1 April 2008 to 31 March 2009 is included in Appendix [2].

## 4. Matters for communication to those charged with governance (continued)

### **International Standards on Auditing (UK and Ireland)**

We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

### **Liaison with internal audit**

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. The results of this were:

- Specific reliance was placed on NDR, Council Tax, Expenditure, Treasury and Payroll controls.

### **Written representations**

A copy of the representation letter to be signed on behalf of the Council has been attached at Appendix 4.

# 5. Value for Money Conclusion

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. This conclusion is given within our audit report on the Authority's accounts.

The conclusion is limited to an assessment of five criteria specified by the Audit Commission under the Use of Resources (UoR) methodology. The UOR assessment consists of judgements against 12 key lines of enquiry (KLOE) which focus on financial management but link to the strategic management of the Authority. The KLOE cover a range of topics including how financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. Assessments are carried out annually, as part of each Council's external audit. The Commission has specified that 9 of the 12 KLOE will be considered for 2008/09.

Where, in our judgement, there are gaps in the arrangements which are significant enough, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Authority has put in place proper arrangements except for ...) or in the form of an 'adverse' conclusion (i.e. the Authority has not put in place arrangements in that...). Based on the guidance we have received from the Audit Commission, where qualified, our report refers only to the criteria which we conclude have not been met, without providing further details.

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.

In the table below we have summarised the results of our assessment:

Code criteria	KLOE	Conclusion
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	1.1	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	1.2	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	1.3	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2.1	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2.2	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	2.3	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	2.4	Yes
8. Is the organisation making effective use of natural resources?	3.1	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service?	3.2	Yes

# 6. 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.

**David Wilkinson**  
For and on behalf of Deloitte LLP  
Chartered Accountants  
Newcastle upon Tyne

23 September 2009

# Appendix 1: Audit adjustments

## Uncorrected misstatements

The following uncorrected 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
<b>Non-Judgemental</b>					
Reclassification of credit balances on the sundry debtors ledger	*	447			
Debtor classified as a Payment in Advance	*	86			
Under Recording of Depreciation Transfer to Revaluation Reserves in PY	[1]*		254		
<b>Judgemental</b>					
Carrying value of loans	[2]	(222)		222	
<b>Total</b>		<b>(222)</b>		<b>222</b>	

\* This adjustment 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] Relates to under-recording of depreciation on Revalued Assets in 07/08 which should be transferred from the Capital Adjustment Account to the Revaluation Account.

[2] Difference between Deloitte calculation of the carrying value of loans using the effective interest rate (EIR) and Council calculation.

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 1: 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:

- Long Term Investments classified as short term (£5,500,000). The Council holds cash deposits with institutions that mature in greater than one year but were classified as short term in the accounts. Since the funds cannot be used to settle a debt within twelve months they should be classified as long term as per SORP requirements. This is purely a reclassification adjustment and did not lead to any change in net worth.
- Grant/Contribution deferred balances in the year which relate to non-depreciating assets (ie Land and Community Assets) were written out to the Capital Adjustment Account as per the Councils interpretation of the SORP. Deloitte disagreed with this treatment on further analysis of the SORP and proposed these should still be kept within the Deferred Accounts.  
Adjustment Posted: DR CAA £24,921k, CR Government Grants Deferred £2,025k, CR Contributions Deferred £22,896k.
- During the course of the audit we identified that the actuary had, in error, used the 2007 discount rate (5.4%) instead of the 2008 discount rate (6.6%). This affected the interest cost for the year which is essentially the liabilities at the start of year multiplied by the discount rate at the start of the year. The effect of this adjustment was to increase the interest cost by circa £5 million.

# Appendix 1: Audit adjustments (continued)

## Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we consider require consideration by the committee.

Disclosure	Commentary
Note 19: Valuation Disclosure	The Council have presented Note 19 Valuation Information by taking a forward look at the future valuation timetable. They have also not made a reference to the table included, and what it represents. Based on the Guidance in the SORP and FRS 14, the note should be providing information for users on past revaluations rather than forward plans for revaluations, as Prior Revaluation values are the actual data in the accounts.

*We have not yet completed our final review of accounts and further disclosure deficiencies may be noted.*

# Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2008 to 31 March 2009 are as follows:

	2008/09 £	2007/08 £
Accounts	£177,680	£169,000
Use of Resources	£71,460	£15,000
WGA	£3,140	-
<b>Total Audit</b>	<b>£252,280</b>	<b>£184,000</b>
Grant Claim Certification*	£34,000	£45,000
<b>TOTAL</b>		

\* 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 2008/09. The 2008/09 fee has been estimated based on the number of grant claims requiring certification



# Appendix 3: Model Audit Opinion

Independent auditor's report to the Members of Middlesbrough Council

Opinion on the Authority accounting statements

We have audited the Authority and Group accounting statements and related notes of Middlesbrough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the related notes 1-59, the Collection Fund and related notes 1-7. The Group accounting statements comprise the Group Income and Expenditure Account, the Group Balance Sheet, the Group Statement of Total Recognised Gains and Losses, the Group Cash Flow Statement and the related notes 1-6. The Authority and Group accounting statements 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 in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 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 and Group 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 and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Responsible Financial Officer and auditor**

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority and Group accounting statements and related notes 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 Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

# Appendix 3: Model Audit Opinion (continued)

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE 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, 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 other information published with the Authority and Group accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited Authority and Group accounting statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. Our responsibilities do not extend to any other 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 Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority'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 Authority and Group accounting statements and related notes 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 Authority and Group accounting statements and related notes.

## **Opinion**

In our opinion:

The Authority financial 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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and

- The Group financial 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 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

# Appendix 3: Model Audit Opinion (continued)

## **Opinion on the pension fund accounts**

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and related notes 1 - 21. The 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 in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 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 and Group 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 and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Responsible Financial Officer and auditor**

The Responsible Financial Officer's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounts and related notes 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 pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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.

We read other information published with the pension fund accounts and related notes as described in the contents section and consider whether it is consistent with the audited pension fund accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

# Appendix 3: Model Audit Opinion (continued)

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 pension fund accounts and related notes 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 pension fund accounts and related notes.

## **Opinion**

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## **Delay in certification of completion of the audit**

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Teesside Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to 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.

## **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 regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor's 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.

# Appendix 3: Model Audit Opinion (continued)

## **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 May 2008 and updated in February 2009. 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 2009.

**David Wilkinson**  
for and on behalf of Deloitte LLP  
Appointed Auditor  
Newcastle, United Kingdom

23 September 2009

# Appendix 4: 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 LLP

Gainsborough House

34-40 Grey Street

Newcastle upon Tyne

NE1 6AE

*Our Ref: HW/MC*

*Date: 23<sup>rd</sup> September 2009*

**Middlesbrough Council – Audit of the annual accounts for the year ended 31 March 2009**

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Middlesbrough Council including the group accounts and the Teesside Pension Fund (“the financial statements”) for the year ended 31 March 2009 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 2009 and of results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008.

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.

# Appendix 4: Draft Letter of Representation (continued)

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

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 Affairs, Audit Committee 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 management, 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.
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.

# Appendix 4: Draft Letter of Representation (continued)

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. 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.
15. The financial statements are free from material misstatement.
16. 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.
17. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets.
18. 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 we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.



# Appendix 4: Draft Letter of Representation (continued)

19. 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 management's 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.
20. 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.
21. We confirm that the Council does not own land which would be material to the financial statements.
22. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.
23. We confirm that the Teesside Pension Fund ("the scheme") is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change.
24. There have been no communications with The Pensions Regulator or other regulatory bodies during the Scheme year or subsequently concerning matters of non-compliance with any legal duty.
25. You have been informed of all changes to the Scheme rules.
26. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Scheme's financial statements.

# Appendix 4: Draft Letter of Representation (continued)

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

# Deloitte.

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