

Middlesbrough Council
and Teesside Pension Fund

Annual Audit Letter

on the 2013/14 Audit

October 2014

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9FX

31 October 2014

Dear Sirs

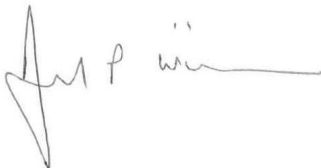
We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2014.

Although this letter is addressed to the members of Corporate Affairs and Audit Committee of Middlesbrough Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

This letter has been discussed and agreed with the S151 Officer. A copy of the letter will be provided to all Members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.



David Wilkinson

Engagement Lead

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1. Key messages

Statement of Accounts

Unqualified opinion issued on 30 September 2014

In 2013/14 the Authority was required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which resulted in a material increase of £14.4m to the carrying value of specialised property assets and a number of minor changes to disclosures.

The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. We issued an unqualified audit opinion on the Statement of Accounts on 30 September 2014.

Value for money conclusion

Unqualified opinion issued on 30 September 2014

We issued an unqualified value for money conclusion on 30 September 2014.

Annual Governance Statement

All relevant governance matters were adequately and appropriately disclosed

We considered the contents of the Annual Governance Statement and confirmed that the Statement adequately and appropriately disclosed relevant governance matters arising in the year.

Pension Fund Annual Report

Unqualified opinion issued on the extract on 30 September 2014.

The Pension Fund included in the Council's annual accounts was prepared and audited by 30 September 2014.

A modified opinion on the matters we report on by exception will be issued on the Pension Fund Annual Report by 1 December 2014

We issued an unqualified audit opinion on the Statement of Accounts on 30 September 2014.

We are anticipating issuing a modified audit opinion on the matters on which we report on by exception on the Pension Fund Annual Report by 1 December 2014.

Whole of Government Accounts

Audit completed and return submitted on 3 October 2014

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We audited the consolidation return and submitted this to the National Audit Office (NAO) on 3 October 2014. We confirmed the consolidation return was consistent with the audited accounts and underlying records.

1. Key messages (continued)

Audit certificate

Audit certificate is yet to be issued

We are currently considering an objection to the accounts raised by a member of the public. We have concluded that the objection does not have a material impact on the financial statements, but are unable to certify the completion of the audit until this has been resolved.

Financial reporting systems

No significant weaknesses noted

We did not identify any significant weaknesses in the financial reporting systems. We reported our conclusions on the audit to the Corporate Affairs and Audit Committee on 26 September 2014. We have agreed with management to prepare a separate Management Letter containing observations from the audit and intend to report this to the next meeting of the Committee in December.

2. Responsibilities and scope

Responsibilities of the Authority and Auditors'

The Authority is responsible for maintaining the control environment and accounting records and for preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of local authorities for the financial year ended 31 March 2014.

3. The audit of the accounts

Key issues arising from the audit of the accounts

Statement of Accounts

Unqualified opinion issued on 30 September 2014

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Corporate Affairs and Audit Committee on 26 September 2014. A number of adjustments were made to the financial statements between their draft and final published versions. These adjustments included a material increase of £14.4m to the carrying value of specialised fixed assets and adjustment to the level of grant income recognised.

We issued an unqualified opinion on the Authority's 2013/14 accounts on 30 September 2014, in accordance with the deadline set for local authorities. Our opinion confirmed that the accounts presented a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Key issues from work performed on the Statement of Accounts

We received a complete set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded to all queries

Annual Governance Statement

The Statement included all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements

As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Authority's Governance arrangements. We concluded that the Statement included appropriate disclosures and was consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.

3. The audit of the accounts (continued)

Pension fund Annual report

Unqualified opinion issued on the extract on 30 September 2014.

A modified opinion on the matters we report on by exception will be issued on the Pension Fund Annual Report by 1 December 2014

Before we give our opinion on the extract, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report providing an update on the status of our report was discussed with the members of the Pension Fund and Investment Panel on 17 September 2014. As a significant amount of testing still needed to be completed, which was not anticipated as part of our audit planning procedures, an update was provided to the Chair of the Pension Fund and Investment Panel on 26 September 2014.

We issued an unqualified opinion on the extract in the Middlesbrough Council Statement of Accounts on 30 September 2014. Our opinion confirmed that the accounts presented a true and fair view of the financial position of the Authority as at 31 March 2014 and its income and expenditure for the year then ended.

We are anticipating issuing a modified audit opinion on the matters on which we report on by exception on the Pension Fund Annual Report by 1 December 2014. This modification relates to the non-inclusion of a number of policy documents required to be included in the Pension Fund's Annual Report in full. Instead, the Authority has opted, as in previous years, to include links to the full reports. As such, we are unable to form a conclusion on the contents of these reports

Whole of Government Accounts return

Audit completed and return submitted on 3 October 2014

The level of the Council's income and expenditure was greater than the £350million de minimis set by the National Audit Office (NAO), meaning we were required to complete an audit of the consolidation return, as in previous years. Adjustments were required to the draft consolidation return to align it with the amended accounts.

The audited consolidation return was submitted to the NAO in line with the required deadline. We confirmed to the NAO that the consolidation return was consistent with the audited accounts and underlying records.

Audit Certificate

Audit certificate is yet to be issued

When our audit is complete we are required to certify the closure of the audit. Owing to an outstanding objection raised by a member of the public, we are unable to certify the conclusion of the audit. We will provide a verbal update to the Committee on our progress in certifying completion of the audit.

4. Value for money

Background and approach

From 2010/11 the Audit Commission introduced new requirements for local value for money (“VFM”) audit work at councils. This year, auditors were required to give their statutory VFM conclusion based on the following two criteria:

- proper arrangements for securing financial resilience: work to focus on whether the Authority has robust systems and processes to manage risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- proper arrangements for challenging how economy, efficiency and effectiveness are secured: work to focus on whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have determined our local programme of work based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission.

The VFM conclusion

Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2013/14 financial year. This means that we are satisfied that, in the areas reviewed, the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

During the course of our work, which focused on the risks identified by our risk assessment, we reviewed the response of the Authority to financial pressures and consider it to be appropriate. We also assessed a risk in respect of the reforms to the Council’s Senior Management structure, in that the section 151 officer no longer sits on the Council Management Team (CMT). Our review found that the role performed by the section 151 officer was appropriate and the arrangements in place were adequately disclosed within the Annual Governance Statement.

Financial resilience

We have also considered the financial standing of the Authority as at 31 March 2014. We have assessed this based on current/on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government’s Comprehensive Spending Review in 2010 and subsequent local government finance settlements each year, the Authority is facing financial pressures over the next few years. In addition, the changes encompassed in the suite of new Acts – the Localism Act 2011, the Welfare Reform Act 2012 and the Local Government Finance Act 2012 - will put further strains on the planning and budgeting processes.

Whilst the Authority has coped well with previous government funding cuts, the anticipated future reductions in funding from 2015/16 onwards will be a significant challenge involving difficult decisions around resource prioritisation. Upon review of the medium term financial plan, we consider the response of the Authority to the financial pressures to be appropriate.

5. Other matters

Reports issued

Reports issued during the course of the 2013/14 audit included:

- Fee letter (November 2013);
- Audit plan (July 2014);
- Report to those charged with governance on the 2013/14 audit (September 2014); and
- Annual Audit Letter (October 2014).

Analysis of audit fees

Audit fees charged are as follows:

| | 2013/14 £'000 | 2012/13 £'000 |
|---|------------------|------------------|
| Total fees for the audit of the annual accounts and whole of government accounts return (excluding VAT) | 161 | 152 |
| Total fees for the audit of the Pension Fund (excluding VAT) | 29 | 29 |
| Rebate from the Audit Commission (Council) | (21) | - |
| Rebate from the Audit Commission (Pension Fund) | (4) | - |
| Fees payable in respect of grants claims and returns of the authority (estimate) | 17 | 23 |
| Total | 182 | 204 |

We have performed a range of non-audit services for the Council in the year, totalling £51,000 (£27,000 in 2012/13, which is excluded from the audit fee stated above. These services include an Estates Review, a review of the Digital City project and certification of grants associated with it and a review of the Council's governance arrangements. We are of the view that the level of non-audit services does not impair our independence from the Council, and we have put in place adequate safeguards to ensure this.

The Audit Commission provided a fee rebate to the Authority in respect of 2013/14 following a procurement exercise which generated savings as the Commission is wound up.

At the date of preparation of this report a fee variation is being requested in relation to the audit of the Pension Fund and this will be considered by the Audit Commission at the start of 2015.

Grants

We have undertaken work during the year on two returns made by the Authority - our work is still on-going and a separate report will be prepared in respect of the findings from this work.

Objection

Our work on the objection to the accounts is ongoing. It is noted that there will be additional costs for this work, as these were not forecast to be included within the scale audit fee noted above. We will discuss the additional costs of these with management and inform the Corporate Affairs and Audit Committee of the additional cost once it is finalised. We will endeavour to minimise costs while performing the work necessary to fulfil our statutory obligations.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party since this report has not been prepared, and is not intended, for any other purpose.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.

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