

Update to the ISA260 report for the year ended 31 March 2014

This paper summarises the changes made between the ISA260 report on Middlesbrough Council's accounts for the year ended 31 March 2014 presented as a progress report to the Corporate Affairs and Audit Committee on 26 September 2014 and the final report presented on 29 January 2015.

When we presented our ISA260 report to the Committee in September, we noted that there were a number of procedures outstanding before we could provide an opinion on the Council's accounts. We also provided a verbal update to the Committee on progress made between the preparation of the ISA260 report and the Committee meeting. We have since updated the ISA260 report and present this paper to summarise the amendments made.

The big picture

Previously we reported there were a number of procedures outstanding. These procedures were completed prior to signing an unmodified opinion on the accounts by the 30 September 2014 deadline.

We noted an intention to issue an unmodified opinion on the Value for Money conclusion. We confirm that we issued such an opinion on 30 September.

We also reported that we had received an objection to the accounts which may have affected our ability to provide an opinion by the 30 September. We considered the substance of the objection and concluded that it did not constitute a material risk to our opinion on the accounts or Value for Money conclusion. We are still considering our formal response to the objection and will keep the Committee informed of our progress.

We noted that our work on the Whole of Government Accounts (WGA) had not been completed at the time of reporting to the Committee. The deadline for submission of our opinion in this area was 3 October 2014. We performed the procedures specified by the group auditor, the National Audit Office (NAO), and provided them with an opinion on 3 October that the consolidation pack was consistent with the audited accounts.

We stated we would provide the Corporate Affairs and Audit Committee with a separate management letter containing recommendations for improvement. This letter has been discussed with officers and has been tabled as a separate agenda item at this meeting. We have also agreed with management to facilitate a session with key finance staff around improvements to the financial reporting and audit process. This will be held in February 2015.

There were no further adjustments identified which were not reported to the Committee in the progress report or by verbal update by officers at the meeting of 26 September.

Updates to significant risks

We identified 4 significant risks as part of our audit procedures. We have updated the ISA260 in respect of two risks.

Firstly, in respect of the recognition of grant income, our testing found a non-material adjustment was necessary to the grant income recognised. This did not affect the level of resources available to the Council, only the point at which the income was appropriate to be recognised in the accounts. We have made a recommendation in this regard in our management letter.

With respect to the significant risk of management override of controls, we previously noted the Council appeared to make a large number of low value journals. On discussion of our findings with officers, it became apparent that a significant proportion of these journals were automated, and so did not have a time cost in terms of processing these adjustments to the accounting record. We are also aware of a protocol established by management to minimise the time spent processing low value journals, which is expected to be beneficial in saving staff time.

Within the management override of controls risk, we considered the appropriateness of estimates made by management in preparing the accounts. We had proposed an adjustment with regards to the estimated valuation of the National Non-Domestic Rates (NNDR) provision for appeals, on the grounds that the estimate made by the Council differed from our auditor's estimate. Following the meeting of the Committee, we reviewed the methodology behind the Council's estimate against available guidance and considered it to be sound. We have therefore removed comments around this specific estimate from the ISA260 report.

Other matters

Throughout the document we have updated the language used to confirm where adjustments have been made. These matters were reported within Appendix 2 as expected to be made but had yet to be confirmed at the point of writing the report to the Committee. Following the Committee meeting, we confirmed that management had made these amendments as expected. These amendments to the ISA260 report are insignificant.

Responsibility statement

This report should be read in conjunction with the "Progress Report to the Corporate Affairs and Audit Committee" discussed at the Committee on 26 September 2014 and sets out an update on those audit matters of governance interest which came to our attention during the audit and were outstanding at the time of our final report or have arisen since that date. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Corporate Affairs and Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this 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.

Deloitte LLP

Chartered Accountants

Newcastle

20 January 2015



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