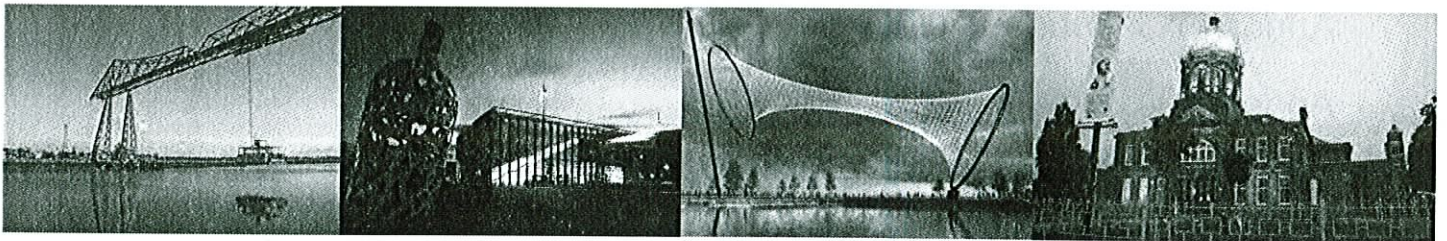


Planning Report to the Corporate Affairs and Audit Committee for year ending 31 March 2015



the
Distinctive
audit

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I am please to present Deloitte's planning report for audit of Middlesbrough Council's 2014/15 accounts. This report sets out our audit approach and the more significant areas where we will focus our attention this year.

Chris Powell, Audit Partner



The big picture

The big picture

We have set out below an overview of the key developments at the Council and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Relevant developments

- The environment the Council finds itself in provides the Council with a significant challenge to continue to deliver services in a reduced financial envelope.
- There have been significant changes amongst senior members of the Council's Leadership team, including a newly appointed Chief Executive from 1 April 2014. Financial management is now organised by strategic theme rather than a Directorate structure.
- Subtle changes have been made to the Code of Practice on local Authority Accounting, including in respect of the accounting for Schools, which we have discussed with key members of the Council's finance function.
- The Audit Commission is to be formally abolished from 31 March 2015, with responsibility for overseeing local public audit transferring to a dedicated company under the auspices of the Local Government Association.
- The 2014/15 audit represents Deloitte's final audit of Middlesbrough Council following a tendering exercise undertaken by the Audit Commission.

General Fund net expenditure

£140.402m 13/14 budget

£136.804m 13/14 outturn

£130.600m Budgeted

£-1.737m Variance reported (December)

General Fund reserve (£m)

£6.0m 31/3/13

£9.6m 31/3/14

Key dates

31 March 2015 – year end

30 June 2015 – Publication of draft accounts

31 September 2015 – publication of audited accounts

Key developments in financial reporting requirements

- Changes have been made to the Code of Practice, incorporating new guidance. We have assessed the impact of these changes with management, and conclude that they are expected to have limited impact on financial reporting for the Council.
- The updated Code includes additional guidance around the clear presentation of the financial statements, which we have drawn management's attention to.
- The Council's decision to adopt a new approach to budget monitoring, analysing expenditure via Strategic Themes rather than through the Directorate structure will require changes to the accounts, including the Segmental Reporting disclosure note. This note reconciles the style of information reviewed by the Council's Executive to the information disclosed in the Financial Statements.
- We held a session with key members of the Finance team in February to discuss our audit approach, the identified significant risks and provide two-way feedback from the 2013/14 audit to help improve the audit process from both the Council's and Deloitte's perspective.

A reminder on our conclusions in 2013/14

- In September 2014, we issued the Council with an unmodified audit opinion on the financial statements. A number of adjustments were made to the draft financial statements, including material adjustments to the carrying value of specialised Property, Plant and Equipment (PPE) and a non-material adjustment to the level of revenue grant income recognised.
- In January 2015 we published a Management Letter including recommendations to help the Council improve their financial reporting and accounting processes. We will follow up on these recommendations a part of our 2014/15 audit.

The big picture

Significant risks

The below dashboard summarises the significant risks we have identified as part of our planning procedures. These are the risks which we consider require a detailed response from the Auditor to address the risk of a material misstatement being undetected by audit procedures.

Each risk is explained in detail on the subsequent pages, together with any observations from our planning procedures.

Auditing standards require us to presume a significant risk of fraudulent financial reporting exists with respect to the recognition of revenue owing to the sensitivity of the balance, and in respect of management override of controls, owing to management's unique position to influence the presentation of balances within the accounts.

We have identified two significant risks to our Value for Money conclusion, in respect of Financial sustainability and property disposals.

	Material	Fraud risk	Planned controls testing approach	Level of management judgement	Management paper expected
Revenue Recognition – grant income	✓	✓	Design and implementation of controls	⚠	Working papers documenting assessment against recognition criteria
Valuation of Property, Plant and Equipment	✓	✗	Design and implementation of controls	⚠	Valuers' overarching review of estate and market conditions, with management assessment
Disclosure of related party transactions	✓	✗	Design and implementation of controls	⚠	Working papers supporting judgement of identification of related parties
Management override of controls	✓	✓	Design and implementation of controls	⚠	Management paper on key estimates adopted and their rationale

Key: level of management judgement ⚠ Low ⚠ Medium ⚠ High

Value for Money risks

Our significant risks to the Value for Money conclusion are not presented in the table above. This is because they do not directly affect the financial statements and are not affected by management's judgements in the same way as financial statements risks. Further details of our VfM risks are shown on pages 22 and 23.

Our audit quality promise

Our audit quality promise

Our new quality standard



The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and our experience with other Councils, we know that you value an integrated audit approach which encompasses the main financial statements audit, value for money conclusion and certification of relevant grants and returns. Our Audit Quality promise takes this into account.

We have maintained a consistent audit team in as many instances as possible. Chris Powell has taken over as Engagement Partner from David Wilkinson. Chris is an experienced Engagement Partner who has many years experience working with Local Government. Celia Craig has taken over as Audit Director from Nicky Cooke. Celia also has many years experience working with Local Government, both as Audit Director and Engagement Lead, and worked with the Council for several years up to 2011. We have maintained key individuals in the Manager and Field Manager positions in Alistair Ross and Harriet Eberé respectively, who both have multiple years of experience working directly with the Council.

We have supplemented them as necessary with skilled, experienced and knowledgeable individuals to ensure timely and effective delivery of our audit. We pledge to take the same approach in future years with a consistent audit team, drawing on expertise as necessary to supplement our core team.

Our commitment to you



Communication

We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will be in regular contact with Martin Padfield to ensure we remain up to date with the developing issues at the Council through the year, and will discuss, in advance, any papers we wish to present to a meeting of the Corporate Affairs and Audit Committee.

Senior members of the audit team will attend meetings of the Corporate Affairs and Audit Committee as scheduled.

We will meet quarterly with Mike Robinson, Tony Parkinson and Paul Slocombe.

In these meetings we will discuss the latest Council developments, and in-year performance. We will also provide any updates on our findings to date, and any relevant regulatory / technical updates.

During the main audit period

During the audit period we will work closely with Martin Padfield and the Strategic Resources team. We will ensure we summarise our findings and discuss any emerging issues on the financial statement audit.

We will work with Ian Wright as our key point of contact for the Value for Money conclusion.

We will hold a close meeting with management to discuss the contents of our report to the Corporate Affairs and Audit Committee.

We will work with Paul Slocombe to ensure he is up to date with our findings and the insights we will seek to raise.

We will maintain regular contact with Elaine Stuart during our testing of the Housing Benefit subsidy claim.

Open feedback process

We will carry out debrief meetings with the Corporate Affairs and Audit Committee Chair, Paul Slocombe and Martin Padfield to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

We will also seek direct feedback through regular meetings during the year.

Responding to queries and requests

We will always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Council, as soon as we become aware.

We will make ourselves available to discuss issues as they arise, in advance of the year end to smooth the closedown and accounts production processes.

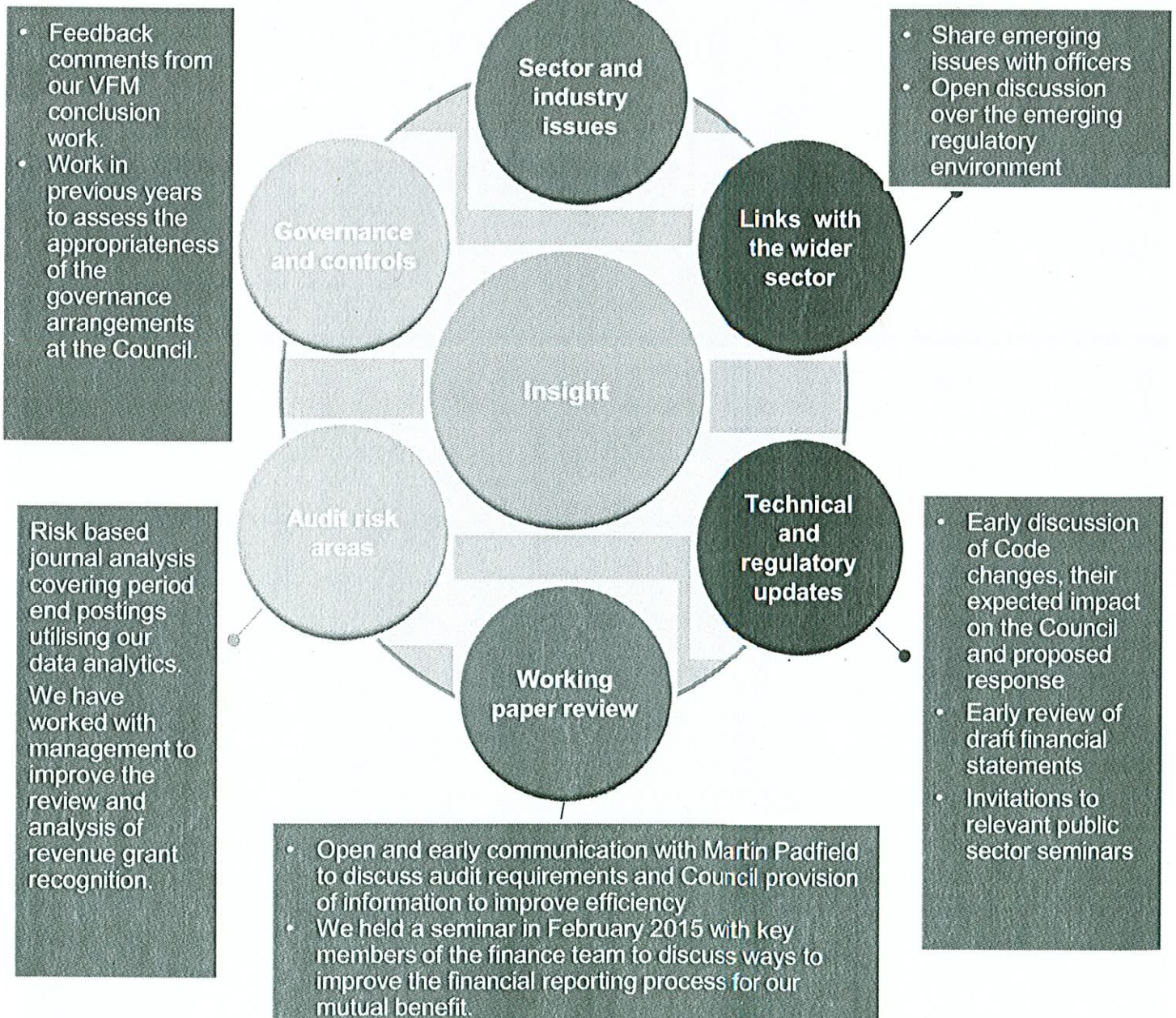
Bringing you insight



We have summarised below some of the ways we have and continue to provide the Council with insight during 2014/15

Sharing knowledge of sector developments, for example:

- We have attached at Appendix 5 a summary of our research into the state of local public services
- We will discuss relevant Deloitte publications with senior staff to raise awareness of sector issues
- We will discuss future emerging Local Government issues with key officers as they arise to help with the Council's future plans



Changes in your Statement of Accounts

Changes in your Statement of Accounts



New reporting requirements

We welcome this opportunity to set out for the Corporate Affairs and Audit Committee a summary of the latest developments in financial reporting which will impact this year end. We will discuss with officers the impact of these changes on your financial statements.

Change in Code of Practice on Local Authority Accounting requirements	Impact on Your Council
<ul style="list-style-type: none"> • Accounting for Schools – The 2014/15 Code Guidance Notes include new requirements to consider Local Authority maintained schools as entities over which the Council has control. This may have an impact on the Council's group accounts and associated disclosures such as related parties. 	<ul style="list-style-type: none"> • We have discussed the changes with the Finance team. We are satisfied that there will be no impact on the financial statements, other than the potential for minor disclosure adjustments.
<ul style="list-style-type: none"> • Group Accounts – The revised Code includes extensive revisions to reflect the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011. 	<ul style="list-style-type: none"> • The Council has not been required to prepare Group accounts in previous years on the grounds of materiality. We expect this to continue to be the case and will confirm this as part of audit testing.
<ul style="list-style-type: none"> • The Carbon Reduction Commitment Energy Efficiency Scheme – The Code has been updated for the consequences of the accounting requirements for the second phase of the scheme, which commenced in April 2014 and runs until March 2019. 	<ul style="list-style-type: none"> • We do not anticipate this to have an impact on the Council's statement of accounts.
<ul style="list-style-type: none"> • Presentation of financial statements – The Code incorporates amendments to IAS 1 in respect of the new requirements for specific comparative information and clarification regarding the complete list of financial statements. 	<ul style="list-style-type: none"> • The Council's financial statements in previous years already met this requirement, and we do not anticipate there to be any impact from this change.
<ul style="list-style-type: none"> • Dedicated Schools Grant (DSG) – Further amendments have been made in the Code in respect of the disclosure requirements for this grant. 	<ul style="list-style-type: none"> • We have reviewed this with management and expect there may be minor changes to the specific disclosure because of this.
<ul style="list-style-type: none"> • Example Financial Statements – The Code now incorporates CIPFA's updated <i>How to Tell the Story</i>, which is intended to help CFOs and other senior staff present the financial statements to members and other key stakeholders, by explaining how the formats can be used to convey key information in these areas, and covers the main financial statements. 	<ul style="list-style-type: none"> • We have drawn management's attention to this section of the revised Code to provide guidance which may facilitate the key presentation of the financial statements.
<ul style="list-style-type: none"> • IAS 32 Financial Instruments – The Code adopts amendments made to IAS 32 <i>Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities)</i>, December 2011. This includes amended disclosures for certain types of specific financial instruments. 	<ul style="list-style-type: none"> • We have reviewed this change to the Code and not identified any impact on the prior year audited figures. We will continue to review this through the audit to ensure the required presentation has been met.

Scope of work and approach

This section sets out our planned scoping for the audit of the Council's financial statements, as well as in relation to our other responsibilities as your external auditors. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

We have five key areas of responsibility under the Audit Commission's Code of Audit Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

Assurance report on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering the whole of the public sector and include some 1,700 separate bodies. We expect to perform similar procedures on the Council's consolidation pack as in prior years, to confirm the pack is consistent with the accounts and that intra-government balances have been accurately identified.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and,
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority.

The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

We produced an annual report summarising our work in respect of grants which is discussed at the Corporate Affairs and Audit Committee meeting on 25 June 2015.

Annual Governance Statement

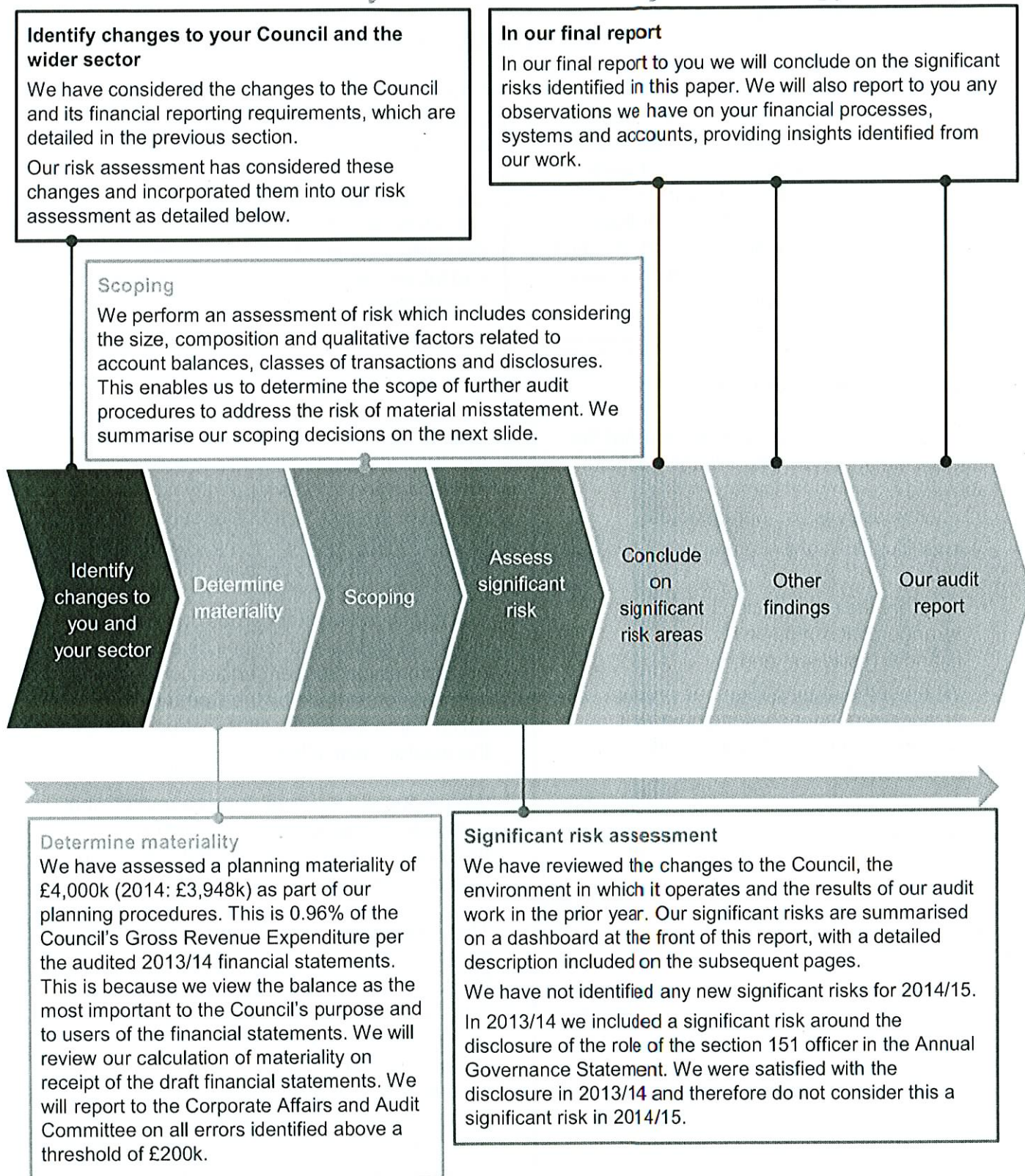
We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

We will also review reports from regulatory bodies and any related action plans developed by the Council.

The most significant grant we certify relates to the Council's claim from the Department of Work and Pensions for Housing Benefit Subsidy. In previous years, this certification process included providing the Council with assurance over the processing of Council Tax Benefit claims as well. Following the replacement of Council Tax Benefit with a local Council Tax Reduction scheme, our certification does not cover these elements of Council income and expenditure. Members may wish to consider the level of assurance they gain over these balances.

Our audit explained

We tailor our audit to your Council and your strategy



Quality and Independence

We confirm all Deloitte network firms are independent of Middlesbrough Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" included as Appendix 6, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

We will consider the results of our procedures in respect of the Council's controls and the extent of any impact our findings have on our substantive audit procedures.

Obtain and refresh our understanding of the Council and its environment including the identification of relevant controls

Identify risks and any controls that address those risks

Carry out 'design and implementation' work on relevant controls

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

Scoping of material account balances, classes of transactions and disclosures

We have made the following significant scoping decisions, having assessed the risk of material misstatement to the Council's accounts.

- There are no strategic themes of the Council which will not be subject to audit procedures; and,
- We do not intend to perform detailed testing over intangible assets balances.

This is based on our risk assessment of these balances, considering the significance, size and movements in the balances, among other factors.

We will update our scoping decisions following receipt of the draft financial statements and inform the Corporate Affairs and Audit Committee of any significant changes to our scoping decisions made during the course of the audit.

Liaison with internal audit

We continue to rely on the work of the Internal Audit function to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

We plan to hold discussions with the Head of Internal Audit to understand the work they have performed in the year and any weaknesses they have identified in the control environment, so we can assess their impact and plan our audit response.

Whole of Government Accounts (WGA)

Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. We will consider the referral instructions from the National Audit Office (NAO) and undertake appropriate audit procedures on the WGA return accordingly. In the previous year, we provided an opinion to the NAO that the consolidation return was consistent with the annual accounts.



Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

For the Council's 2014/15 financial statements, we have estimated materiality at the planning stage to be **£4,000k** based on forecast expenditure for the year. We will report to the Corporate Affairs and Audit Committee on all unadjusted misstatements greater than **£197k** and other adjustments that are qualitatively material.

1. Revenue recognition

We consider a significant risk exists in relation to the early recognition of grant income where conditions exist

We have identified the early recognition of grant income as a significant risk on the grounds that:

- The Code of Practice on Local Authority Accounting states that grant income cannot be recognised until all conditions associated with it have been met;
- Many financially significant grants contain detailed conditions restricting their recognition which management needs to assess;
- Management makes key judgements as to whether the grant conditions have been met, and these judgements could be prone to bias; and,
- Recognising income in an incorrect period would be a method by which management may seek to improve the financial performance of the Council in order to present a more favourable year end position.

ISA240 requirements

International Standards of Auditing (UK and Ireland) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to presume that there is a risk of fraud with respect to the recognition of revenue.

This is because of the significance of revenue transactions to the financial statements.

We have assessed the Council's different income streams and targeted our significant risk against the types of revenue we believe are most prone to material misstatement.

This consideration is made before we consider the adequacy of the controls management has put in place to mitigate the risk.

Our approach

- We will test the design and implementation of controls management has put in place to ensure grant income is recognised in the correct period and not before any conditions on the grants use have been met.
- We will conduct detailed substantive testing of both the revenue and capital grant income recognised by the Council in the year to determine the appropriateness of recognising the income.
- We will also perform procedures to test the completeness of grant income, using data from independent sources to ensure all grants the Council is scheduled to receive have been recognised.
- We note from our procedures in 2013/14 there was a non-material adjustment made to the accounts in respect of grant income recognised. We are working with management to improve the controls in place to prevent a similar error occurring in 2014/15.

2. Valuation of PPE and Investment Property

We consider a significant risk exists in relation to the valuation of PPE and Investment Property assets owing to the prevailing conditions in the property market at this time.

We have considered the nature of the Property, Plant and Equipment (PPE) balance and concluded that a significant risk exists in relation to the valuation of Land and Buildings. This is because:

- The Council holds significant amounts of Land and Buildings (£270m net book value as at 31/3/13);
- We have required significant adjustments to the carrying value of both PPE and Investment Properties in previous audits; Valuations involve an element of professional judgement, both in terms of ascertaining the appropriate valuation, but also in terms of identifying the assets which may have been subject to changes in valuation over the previous 12 months; and,
- Effective valuations require the use of expert knowledge to maintain materially accurate valuations, and the assessment of market values are inherently judgemental.

Impact on the Council

The value of Property, Plant and Equipment is held on the Council's Balance Sheet, with revaluation gains recognised in the Revaluation Reserve, and losses recognised in the Revaluation Reserve, such that there is a balance for that asset, and then in the Comprehensive Income and Expenditure Statement as an impairment.

Changes to the value of Investment Properties are recognised in the Comprehensive Income and Expenditure Statement on revaluation.

Changes in value do not affect the Council's "bottom line", as statutory overrides reverse impairments to the Capital Adjustment Account, meaning the Council would not have to raise council tax to fund impairment losses.

However, where an impairment is caused by the reduced service potential of an asset (rather than a change in market value), the Council could face charges to repair the building and restore the asset so it is fit for use.

Our approach

- We will test the design and implementation of controls management has put in place to ensure PPE and Investment Properties are materially fairly stated in the Balance Sheet.
- We have held early discussions with key members of the finance team to address this risk in advance of the year end.
- We will consult with our specialist valuation colleagues where we consider it necessary, and review the changes in valuation trends in the wider area to determine the reasonableness of the carrying values of both PPE and Investment Properties.
- We will also test the disclosure of these balances in the accounts, particularly with reference to the disclosures of valuation methodologies and the dates of valuations.

3. Adequacy of disclosures of related party transactions

The Council are required to disclose transactions with various related parties

We have identified the adequacy of disclosures of related party transactions as a significant risk.

As a result of our audit in previous years, the Council made a number of amendments to the related party disclosures note in the financial statements. These amendments were necessary to ensure the accounts achieved fair presentation and complied with the Code of Practice on Local Authority Accounting.

We have raised recommendations in previous years to improve the level of information held by the Council regarding both Members and Senior Officers related parties, and the processes in place to ensure it is up to date. In 2013/14 we also raised a recommendation around documenting the review of key judgements made in preparing the financial statements disclosure.

Impact on the Council

The disclosure of related party transactions provides important information to the user of the accounts on the nature of transactions between the Council and connected organisations. Disclosures are also required for transactions with bodies related to Senior Officers.

The disclosure is a key method by which the Council can be held to account for significant transactions which have occurred during the year.

It is inevitable that the Council will engage with related parties in order to deliver services. However, where controls exist to demonstrate the transactions was undertaken at arms length, disclosure can be made to this effect.

Our approach

- We will review the controls management has in place for collecting the information required for the disclosure, and ensuring it is complete and accurate;
- We will review the records collected by management from annual returns from members and senior officers, and consider them against our knowledge;
- We will review external data sources including Companies House records to identify further relationships which may exist and require disclosure; and,
- We will consider the qualitative aspects of the disclosure note, against the requirements of the Code of Practice and also review the appropriateness of the disclosures made by management.

4. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of Management override of controls.

Our approach

- We will consider those significant accounting estimates, which may be subject to Management bias, as set out in the other risks described in this section. We will request management provides a paper analysing of the key estimates used in preparing the financial statements, and justifying their appropriateness. This is in line with developing good practice, to ensure Those Charged With Governance (the Corporate Affairs and Audit Committee) take ownership of the key judgements made in preparing the accounts.
- We will also perform focussed work on the testing of journals, using data analytics to profile the journal population and focus our testing on higher risk journals; significant accounting estimates, and any unusual transactions, including those with related parties.
- We will use enhanced data analytics to provide support and enable more targeted testing of items which bear the characteristics of a risk.

Data Analytics

We will use our patented Spotlight Data Analytics tool to drill down into balances and undertake more focussed testing, more appropriate to the account balance or class of transaction. Analytics enables us to undertake sample testing in a risk-focused and user-friendly way.

We are embedding data Analytics technology in all our testing. This provides audit teams on the ground with a range of tools to understand trends in data and highlight areas of audit interest, allowing for more focussed and meaningful testing of risk areas.

We will use Data Analytics to give us insight into your annual financial statements. We will also use Data Analytics to identify high risk journals for our testing the specific identified risk of Management override of controls.

Data Analytics tools will help us to deliver audits in faster, better way.

Value for money conclusion

Value for money conclusion

Our work will focus on the extent to which the Council has proper arrangements in place to secure value for money

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether Middlesbrough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as the "VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014/15
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which none has been identified for 2014/15; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Preliminary assessment

Our preliminary assessment identified two significant risks in relation to our VFM responsibilities. These are detailed on the following two pages. This preliminary view is based on the undertaking of a risk assessment, which involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on Middlesbrough Council.

We have undertaken this preliminary work through review of relevant documentation, including Executive and committee papers, and discussion with officers as necessary. We will update our detailed risk assessment to take account of further financial and performance information for 2014/15, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Value for money conclusion (continued)

Financial sustainability

Financial planning, change programme and efficiency plans

The Council faces a challenging set of circumstances resulting from reductions in revenue made available from Central Government and additional budget pressures including growing demand for services, leaving the Council in a difficult financial position. Despite significant savings being made in previous years, further reductions in budgets are required in future years to ensure the Council can continue to provide its core services.

The Council's budget for 2015/16, as set in February 2015, recognises a £13.4m reduction in central government support, and proposes reductions of £14.1m across the Council's nine strategic themes, with further budget reductions of £16.4m planned in both 2016/17 and 2017/18. The 2015/16 budget includes provision to utilise £2.2m of reserves in 2015/16, with further plans to use £2.4m of reserves across the Medium Term Financial Plan.

In the previous year we considered the level of the Council's reserves for adequacy, and noted no issues with the closing level of reserves. The General Fund reserves are currently above the Chief Finance Officer's recommended minimum level, but plans exist to partially utilise these.

Our approach

We will select a sample of budget reduction measures to assess the reasonableness of the quantification of the savings to be achieved, the risk assessment and the processes for identifying and addressing any costs of implementation.

We will maintain a watching brief over the delivery of the savings and progress in the development of the savings plans to address the remaining balance.

We will also maintain a watching brief over progress in the Change Programme and in developing future financial plans.

Value for money conclusion (continued)

Property disposals

Sale of Property

The Council owned some of the buildings and grounds of Acklam Hall, a grade I listed building, with the remainder being owned by Middlesbrough College. During 2014/15, the Council and College sold the Acklam Hall site to a developer in a joint transaction, achieving a sale price of £0.9m (Council share: £0.66m), a significant reduction from the initial expected price of £2m, as a result of abnormal costs and restrictions on the development.

In response to a series of allegations in the press over whether value for money was achieved in the sale, the Council has carried out an internal investigation to:

- identify the key issues and lessons that can be learned from the Acklam Hall project; and
- ascertain if there is adequate assurance in respect of Acklam Hall:
 - in terms of appropriate decision making; and
 - whether the sale represented value for money.

Further work is also to be undertaken by Internal Audit to review a sample of other property disposals.

A number of changes in procedures had already been implemented prior to this investigation, including a change in the delegated authority for making decisions on the sale of property, a revised approach to the documentation and tracking of decisions, and the allocation of responsibility for ensuring an appropriate capital monitoring framework is in place.

Our approach

In the early stages of the internal investigation, we reviewed the proposed scope for the work, to be carried out under the supervision of the Council's Monitoring Officer, and concluded that it was appropriate to address the audit risk.

We are currently reviewing the results of the internal investigation and will review the results of the Internal Audit work when available, to determine whether there is any impact on our value for money conclusion. We will also review the supporting documentation for one property within the sample considered as part of the internal investigation, to obtain assurance that the investigation was undertaken robustly, and that the conclusions reached are appropriately supported.

We will consider the adequacy of actions arising from the investigation, in light of changes previously implemented.

Grants and returns

Grants

Our work will focus on the certification of the grants in scope as per our contract with the Audit Commission

Scope

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return;
- or maximise the authority's entitlement to income under it.

Non-certification of NNDR3 return

From 2013/14 the NNDR3 return is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 certification will therefore have the effect of increasing the work required around business rates to support our main audit opinion. The Audit Commission have agreed an extension to the audit fee for this centrally.

Other grants

The number of grants required to be certified under arrangements specified by the Audit Commission has declined in recent years. As discussed in Appendix 1 we expect to contract separately with the Council to provide grant reports over the Council's Teachers' Pension return.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. We enhance this reporting with observations arising from our audit work and our Insight Plan performed to date which are designed to help the Corporate Affairs and Audit Committee discharge its governance duties. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" which we have included as Appendix 6 to this report.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Chartered Accountants

Leeds

June 2015

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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of Middlesbrough Council

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

Independence confirmation	We confirm we are independent of Middlesbrough Council and will reconfirm our independence and objectivity to the Corporate Affairs and Audit Committee for the year ending 31 March 2015 in our final report to the Committee.
Fees	Our audit fees are set by the Audit Commission in line with national scale fees. Details of the non-audit services fees proposed for the period have been presented separately on the following page.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 1: Independence and fees (continued)

We have set out below our audit fees for 2014/15

The table below details our proposed audit fees and non-audit fees for the year ending 31 March 2015 for those services for which we have been engaged or proposed for as at the date of this report.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of Middlesbrough Council's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion (note 1)	154	159
Fees payable for the certification of grant claims (note 2)	10	17
Total fees payable in respect of our role as Appointed Auditor	164	176
Non audit fees (note 3)	10	57

Note 1:

From 2013/14 the NNDR3 return is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 certification will therefore have the effect of increasing the work required around business rates to support our main audit opinion. The Audit Commission has centrally agreed a fee increase for that. The increased fee in the prior year represents an extension agreed with the Council and the Audit Commission to address the Value for Money risk around the role of the s151 officer.

Note 2:

The scale fee for 2014/15 is based on actual certification fees for 2011/12 adjusted to reflect the absence of NNDR3 certification and the exclusion of Council Tax Benefit from the Housing Benefit subsidy certification work. The Commission accept that grants work varies year on year and the work in 2011/12 may not be representative of the work required in 2014/15 and hence an adjustment may be required once the 2014/15 work is complete.

Note 3:

Further information is provided on the next slide. Non audit fees in the prior year includes fees in relation to work reviewing the Council's estates strategy conducted by colleagues from Deloitte Real Estate, work undertaking a review of Digital City, and in respect of additional work performed to support our Governance Review.

Appendix 1: Independence and fees (continued)

As part of our obligations under International Standards on Auditing (UK and Ireland) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Relationship / Service provided	Fees £'000	Threats to auditor independence	Safeguards in place
Additional grants work – teachers pensions	2.5	A self-interest threat may exist that Deloitte may be influenced by the scale of non-audit service fee income.	The level of fee income is not considered significant to influence our judgement. This work is considered complimentary to our role as external auditors as Deloitte have the knowledge of Council systems to complete the work.
Real Estate Advisory	7.5	<p>A threat exists that Deloitte will review work performed by the Firm to support the objectives of management which may be relevant for accounting entries.</p> <p>A separate threat exists that Deloitte will be taking management decisions.</p>	<p>The work in this area is to be performed by Deloitte Real Estate, a separate section of the Firm and reviewed by separate partners. Individuals involved in performing this work will not be used as auditor's experts in valuations work to address the significant risk raised above. The nature of the work performed by Deloitte Real Estate does not impact on the valuation of the Council's estate.</p> <p>The work performed by Deloitte Real Estate has been performed in an advisory role, and no executive decision making powers have been devolved to Deloitte staff. Middlesbrough Council staff continue to make all decisions in this area.</p>
Total	10		

It is our conclusion that our independence is not impaired by the level of non-audit fees receivable. We are also satisfied that appropriate safeguards are in place to ensure our independence is maintained. We will re-confirm our independence to the Corporate Affairs and Audit Committee in our report to the Committee in September 2015.

Appendix 2: Fraud: responsibilities and representations

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with Officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your Management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for the Council.

Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010.

Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of Officers, Internal Audit and the Corporate Affairs and Audit Committee regarding fraud.

We will make the following inquiries regarding fraud:

Officers	Internal Audit	The Corporate Affairs and Audit Committee
<p>Officers' assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.</p> <p>Officers' process for identifying and responding to the risks of fraud in the entity.</p> <p>Officers' communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Officers' communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether Officers has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, to obtain their views about the risks of fraud, and to obtain status reports on fraud cases during 2014/15.</p>	<p>How the committee exercises oversight of Officers' processes for identifying and responding to the risks of fraud in the entity and the internal control that Officers have established to mitigate these risks.</p> <p>Whether the committee has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>The view of those charged with governance on the most significant fraud risk factors affecting the Council.</p>

We will request the following to be stated in the representation letter signed on behalf of the Corporate Affairs and Audit Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:
 - (i) Officers;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Your audit team

A senior team, with continuity from last year, that incorporates specialists to perform audit work over grants and also provide insight and add value to the Council. Our team is selected from our group of public sector specialists.



Chris Powell
Engagement Partner



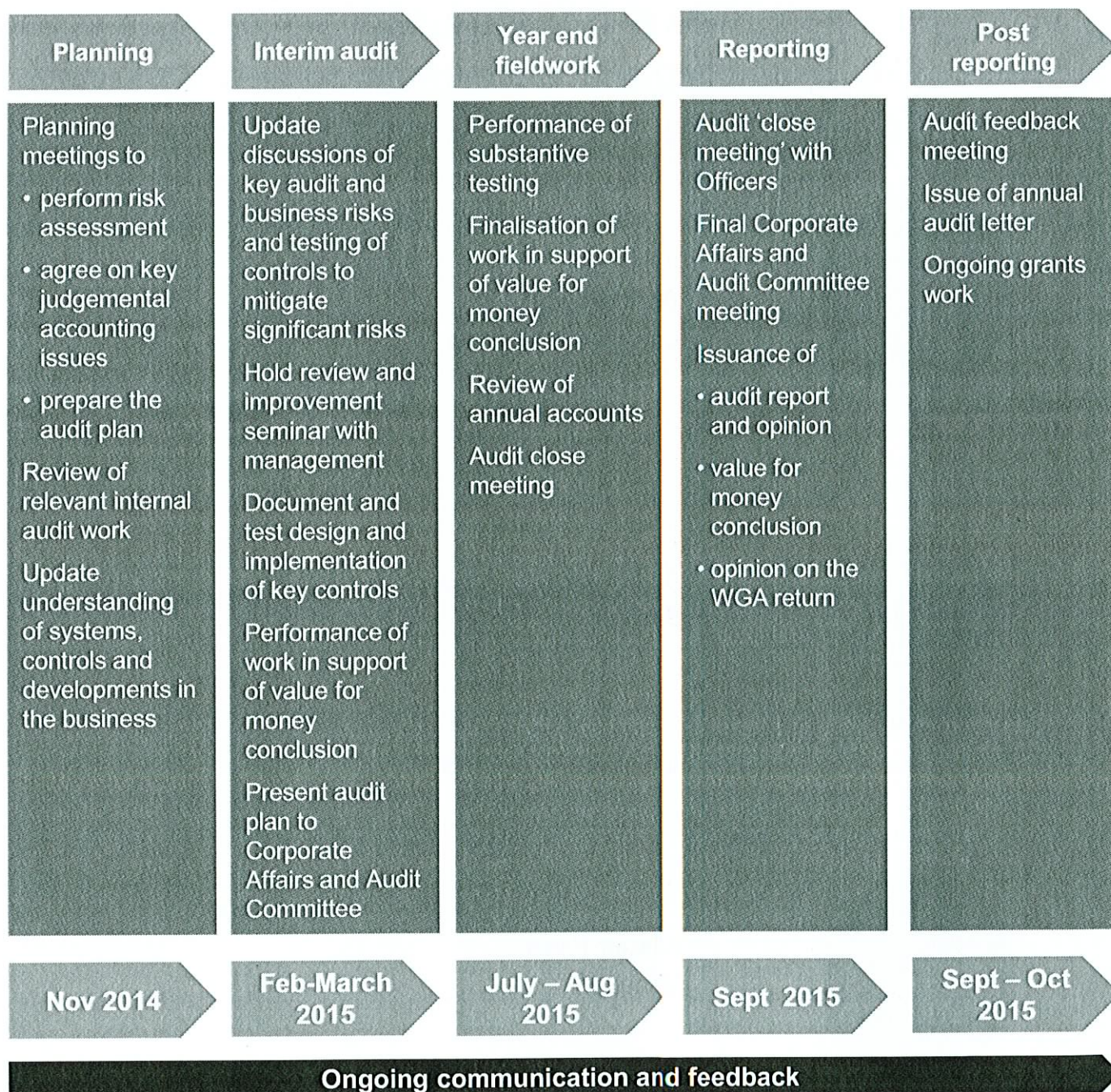
Celia Craig
Director



Alistair Ross
Manager

Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with Management and those charged with governance.





Appendix 5: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2014, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Pride and pragmatism

Faced with unprecedented budget reductions, public sector organisations have adapted significantly since 2010. Many Executives confirmed they had managed to maintain standards in service delivery and in some cases make improvements.

Interviewees told us the most common changes in recent years included cutting headcount numbers, reducing lower priority services and collaborating more effectively with other sectors.

A significant number spoke about pushing accountability down, which they felt improved efficiency but made management roles more challenging.

Risk, uncertainty and crises

A number of executives expressed concerns over the ability of public sector services to cope with future austerity measures.

Most recognised that the cuts to come would be more challenging than those already achieved and that the changes they expect to make will have increasingly profound implications for their organisations.

Many interviewees also spoke about increased demand for services due to cuts in other areas of public sector including welfare reform. A significant number also commented that local politics or economics presented additional barriers to initiatives for dealing with budget cuts.

Constructive political narrative

Our research suggests that those running our public services believe that national politicians could do more to lead a national debate on what citizens should expect from public services and local politicians could do more to engage citizens in that they should expect locally. There is a current perception that politicians often criticise public services but rarely help citizens appreciate that spending reductions may lead to reduced levels of service. As a result, citizens have unrealistic expectations about state provision. In addition, public sector employees feel exposed and unsupported by political leadership, exacerbating recruitment and retention challenges..

Appendix 5: State of local public services (continued)

Talent management

Our interviews found that people issues have begun to preoccupy many public sector Chief Executives. They told us about difficulties in attracting, recruiting and retaining people for a range of key jobs.

Some interviewees described specific recruitment difficulties for nurses, teachers, social workers and public health analysts. The most-often cited causes were that the area struggles to attract people, that some professionals are in limited supply and the public sector cannot compete with the private sector on pay and conditions.

Many Chief Executives told us that workforce reductions had lowered staff churn and they were beginning to feel the effects of not having new staff to bring new perspectives and ideas. Others commented that morale had been affected by cuts and continued criticism of the public sector. A further specific issue raised by many interviewees was the need for more training in change-management for middle managers.

The three most commonly-cited factors influencing retention were stress, weak career progression opportunities and pay and conditions.

Technology, estates and ways of working

Our interviews suggest that attitudes to technology, ways of working and estate management differ across local public services.

Most executives felt their organisations had started to make progress with technology and that technology which enabled front line delivery, such as mobile working for social workers tends to have been prioritised. Budgets, inflexible IT contracts and concerns over data security were cited as barriers to effective use of technology.

Some said they were reticent to introduce flexible working patterns while others recognised they could have a role to play in attracting and retaining talented staff.

A number of chief executives felt they had reduced their organisation's estate as far as they could, but others felt there was more they could do. Typical activities undertaken in recent years include the closure of unviable schools, consolidation of office space and sale of unused buildings. Some told us that the potential for cost reductions were more limited in their areas, where land and property is less expensive. Political issues were also cited as barriers to change, noting that closing police stations and hospitals is invariably unpopular.

The full report, *The State of the State 2014-15* is available on our website at www.deloitte.co.uk. We would be happy to discuss the report in more detail, including how the major themes identified affect the Council.



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Appendix 5: State of local public services (continued)

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The full report, *The State of the State 2014-15* is available on our website at www.deloitte.co.uk. We would be happy to discuss the report in more detail, including how the major themes identified affect the Council.

Appendix 6: Briefing on Audit matters

Published for Those Charged With Governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives	<p>We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Financial Reporting Council ("FRC") and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are:</p> <ul style="list-style-type: none">• to express an opinion in true and fair view terms to the members on the financial statements;• to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting;• To express an opinion as to whether the entity has put in place appropriate systems and processes to secure value for money in its use of resources; and• to express an opinion as to whether the Annual Governance Statement, is consistent with the financial statements and our knowledge of the Council.
Other reporting objectives	<p>Our reporting objectives are to:</p> <ul style="list-style-type: none">• present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and• provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 6: Briefing on Audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Appendix 6: Briefing on Audit matters (continued)

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of ‘clearly trivial’. The Audit Engagement Partner, Officers and those charged with governance will agree an appropriate limit for ‘clearly trivial’. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for Officers and those charged with governance whilst minimising a “box ticking” approach.

Our audit methodology is designed to give members the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Appendix 6: Briefing on Audit matters (continued)

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

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities related to other information in documents containing audited financial statements

Appendix 6: Briefing on Audit matters (continued)

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.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance 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 partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the Auditing Practices Board (“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 FRC. The Firm’s policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC’s Conduct Division, and the ICAEW’s Quality Assurance Department (QAD). The AQRT 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.

Appendix 6: Briefing on Audit matters (continued)

Independence policies

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.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Ethical Standards

The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Deloitte.

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