

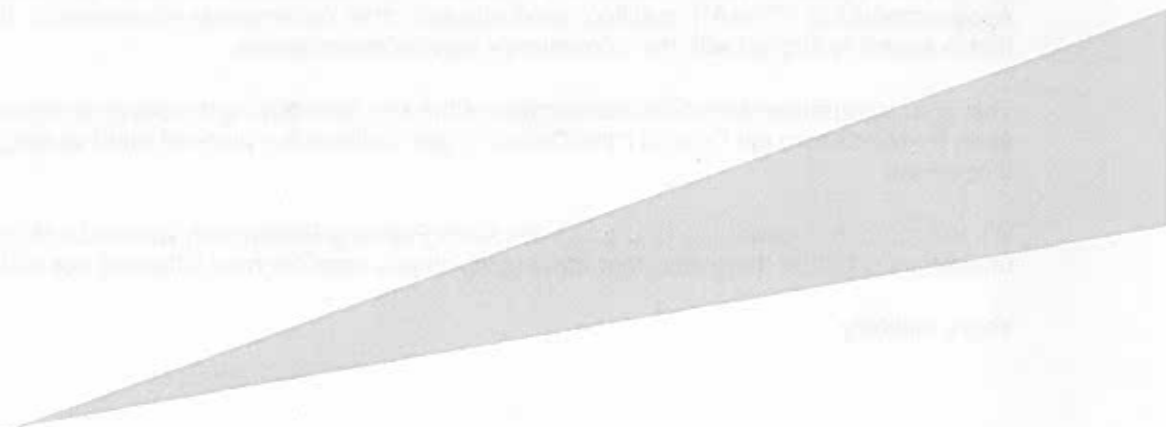
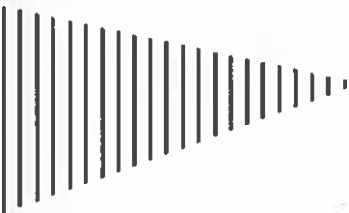
Middlesbrough Council

Year ending 31 March 2016

Audit Planning Report

Presented to the Corporate Affairs and Audit Committee 24 March 2016

Ernst & Young LLP



Building a better
working world



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working world

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Corporate Affairs and Audit Committee
Middlesbrough Council
PO Box 503
Town Hall
Middlesbrough
TS1 9FT

Dear Committee Members

Audit Planning Report

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as your external auditor. Its purpose is to provide the Corporate Affairs and Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd ("PSAA"), auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Middlesbrough Council ("the Council"), and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Planning Report with you on 24 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Nicola Wright
For and on behalf of Ernst & Young LLP
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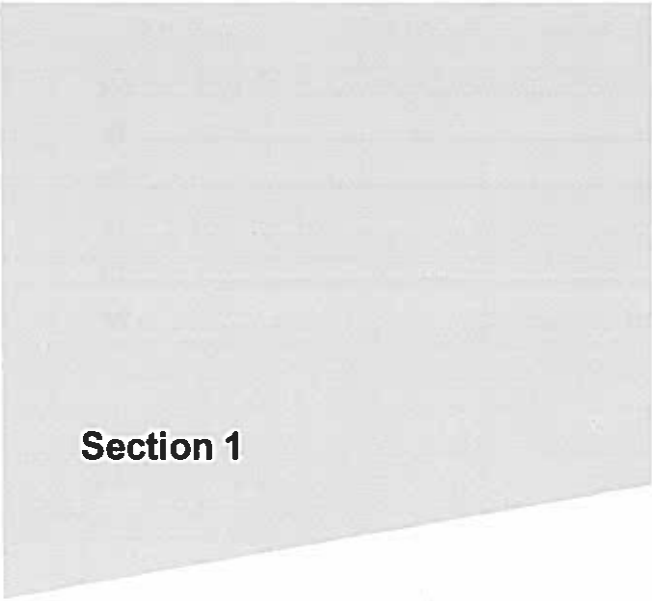
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In April 2015, Public Sector Audit Appointments Ltd ("PSAA") issued the 'Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice ("the Code") and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Corporate Affairs and Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.



Section 1

Risk based approach

Risk based approach



We analyse the risks inherent in your external environment, the key strategic, operational and financial risks for the Council and our knowledge of other factors that may impact the Council's financial statements. The output of this analysis is then mapped to the financial statements and this risk assessment process informs where we will focus our audit work for the year ended 31 March 2016.

Middlesbrough Council

Strategy

The vision of the Council is for Middlesbrough to be "the place to live, work and visit".

Economic development is key to delivering the Council's 2020 Vision for Middlesbrough and there is currently £300m committed to improving economic prosperity.

These developments are expected to generate in the region of 1,600 jobs and training opportunities over this period.

External Influences

2015/16 saw significant funding reductions for local government. The spending review in November 2015 confirmed further significant reductions in the local government funding settlement for 2016/17.

The aim is for all local authorities to become self-funded by the end of parliament through retention of council tax and business rates rather than rely on funding from central government.

Financial

The Council currently has a reasonable level of useable reserves, which it has planned to use alongside savings to achieve the Medium Term Financial Plan.

However, the Local Government Finance Report for 2016/17 was confirmed in February 2016 and Middlesbrough Council is facing a £23m reduction in Revenue Support Grant over the next four years.

While the Council have moved to minimise impact on front line services, there is a risk that efficiency savings alone cannot meet the projected gap over the medium term.

Auditing standards require us to consider whether any of the risks identified are 'significant' risks to our audit of the Council. Significant risks are defined as those with a higher likelihood of occurrence and, if they were to occur, could result in a material misstatement of the financial statements. We are required to identify significant risks to the audit, and perform specific procedures over those risks, including identification and testing of the design and implementation of key controls to address the risks.

Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)	Our audit approach
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date ▶ Review and test completeness of expenditure around the period end
<p>Risk of management override of controls</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias ▶ Evaluating the business rationale for significant unusual transactions
<p>Implementation of a new finance system</p> <p>The Council have implemented a new financial system (Agresso) during 2015/16. The implementation of a new system is an inherently risky process.</p> <p>As with any new system, there is a risk that it does not operate as expected and that data migrated to the new system is incomplete or inaccurately recorded. If either of these risks were to materialise, this could potentially lead to a material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the output of management's user acceptance testing ▶ Review the results of parallel running and other controls operated by management ▶ Review the work performed by Tees Valley Audit & Assurance Services (TVAAS) ▶ Review management's exercise to migrate data to the new system

In addition to the significant risk areas highlighted above, our audit work will also consider the following audit risks which, although not likely to result in a material misstatement of the financial statements, require special audit attention.

Other risks	Our audit approach
<p>Valuation of land and buildings</p> <p>Land and buildings is the most significant balance in the Council's Statement of Financial Position. The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the output of the Council's valuer ▶ Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation experts ▶ Test the journals for the valuation adjustments to check that they have been accurately processed in the accounts
<p>Accounting for pension obligations</p> <p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.</p> <p>The pensions liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the output of the report from the Council's actuary ▶ Review the assumptions used by the actuary to determine whether they are in our expected range ▶ Test the journal entries for the pensions transactions to check that they have been accurately processed in the accounts
<p>Grant recognition</p> <p>In the prior year, Deloitte reported that their testing of grants identified a number of errors in the application of the principles of grant recognition. This resulted in adjustments to the financial statements, reducing the amount of revenue grant income recognised by £325k, and the amount of capital grants and contributions recognised by £3.487m.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Meet with management to understand the Council's significant grant funding streams and how these are accounted for ▶ Follow-up on the recommendation made by the Council's predecessor auditor ▶ We will test a sample of grants through to terms and conditions to ensure that they are recognised correctly
<p>Financial statement close process</p> <p>In the previous year, Deloitte reported that there were a significant number of manual adjustments required between the final ledger balances and the draft financial statements. They recommended that, as part of the introduction of the new financial ledger system, changes are made to reduce the need for such off-ledger adjustments and streamline the financial reporting process.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Meet with management to understand how they have addressed the recommendation made by Deloitte ▶ Review the implementation of Agresso and understand changes made to the financial statement close process ▶ Review "dry run" procedures performed by management to understand the impact of changes made to the financial statement preparation process

Area	2018/19	2017/18
Area 1	100	100
Area 2	100	100
Area 3	100	100
Area 4	100	100
Area 5	100	100
Area 6	100	100
Area 7	100	100
Area 8	100	100
Area 9	100	100
Area 10	100	100
Area 11	100	100
Area 12	100	100
Area 13	100	100
Area 14	100	100
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Area 97	100	100
Area 98	100	100
Area 99	100	100
Area 100	100	100

Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2015/16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

When developing our risk assessment we will consider the risks identified in the Council's risk register and the risks identified by our predecessor auditor. Our preliminary assessment of value for money risks is reported in the table below.

We will perform more detailed risk assessment procedures as part of our audit interim visit scheduled for the week commencing 7 March 2016. In performing our risk assessment, we will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

We will update the Corporate Affairs and Audit Committee with details of any significant value for money risks identified as part of this process at a future committee meeting.

Significant risks	Our audit approach
Project management and property disposals	
<p>Deloitte's prior year testing raised concerns over a number of inter-related issues in respect of project management, the disposal of property and the monitoring and reporting of the capital programme. On the basis of these findings they issued an "except for" qualification.</p> <p>Since then TVAAS have recently concluded their Project Governance and Asset Disposal Investigation. They provided a "Cause for Concern" opinion on the basis that "Major improvements need to be made to the Council's project governance and asset disposal processes in order to ensure</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review management's action plan and evaluate progress made by the Council ▶ Review the work performed by TVAAS during their Project Governance and Asset Disposal Investigation ▶ Discuss the action plan with management to understand their view on the adequacy of planned actions and progress achieved ▶ Review the results of our financial statement testing to understand how controls around <u>project management and</u>

that the control environment is effective going forward".

On the basis of the conclusion provided by Deloitte and the follow-up investigation performed by TVAAS, we believe that the risk of achieving value for money in project management and property disposals remains.

property disposals have operated

Financial resilience

The Council faces a challenging set of financial circumstances, resulting from reductions in revenue made available from Central Government and additional budget pressures, including growing demand for services.

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 proposed reductions of £14.1m across the Council's nine strategic themes, with further budget reductions required in response to the £23m reduction in Revenue Support Grant over the next four years.

In the previous year, Deloitte considered the level of the Council's reserves for adequacy, and noted no issues with the closing level of reserves.

Due to changes in the scope of our value for money conclusion, we are required to undertake a wider review of the governance of the Medium Term Financial Plan ("MTFP"), including how the Council take informed decisions around planning savings.

We will:

- ▶ Review the MTFP and understand the assumptions made in preparing the plan
- ▶ Meet with officers responsible for developing the plan to discuss the risks associated with assumptions made and potential savings identified
- ▶ We will meet with members of the leadership team and Councillors to obtain their understanding of the MTFP
- ▶ We will review the arrangements in place for monitoring ongoing performance against the MTFP

Leadership Team review

The Mayor and Chief Executive presented a joint report to the Council on 6 January 2016 to seek approval for the proposed revision to the senior management structure.

Whilst the Chief Executive believes that the basic senior management model is strong and performing well, "there are a number of changes and external influences that require the leadership team to be reviewed and its fitness for purpose re-examined".

A number of changes to the Leadership Team have been proposed to address the risks identified. We will review the decision-making process and consider any implications for our value for money conclusion.

We will:

- ▶ Review the proposed revisions to the Leadership Team structure
- ▶ Understand how management intend for statutory roles within the Council to be performed in the proposed structure
- ▶ We will review management's assessment of resource deployment under the proposed structure and understand capacity to deliver the Council's responsibilities
- ▶ Review legal advice received by the Council in respect of the restructuring process
- ▶ Review any redundancy/termination payments against contractual terms

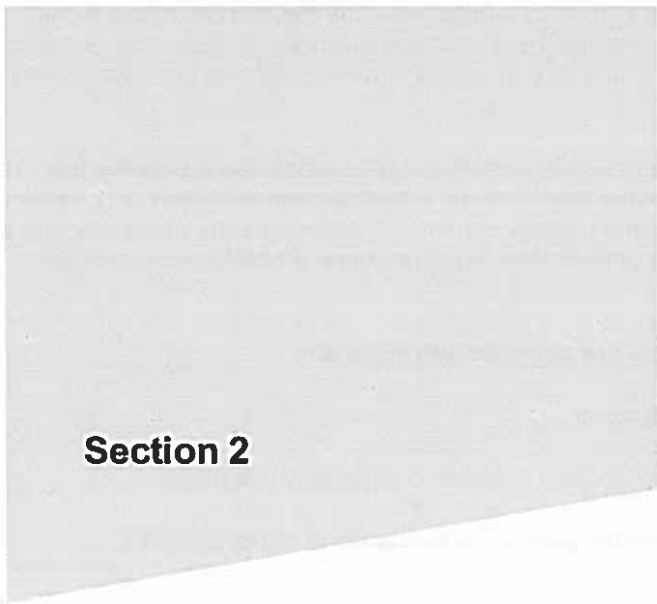
Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified risks.



Section 2

Audit scope and execution

Audit scope and execution



Audit Scope

Under the Code of Audit Practice (“the Code”), our principal objectives are to review and report on the Council’s financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

Service deliverables	
Financial statement audit	<ul style="list-style-type: none"> ▶ Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland) ▶ We report to you by exception in respect of your governance statement and other accompanying material, as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General ▶ Alongside our report we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require
Arrangements for securing economy, efficiency and effectiveness (value for money)	<ul style="list-style-type: none"> ▶ We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness in its use of resources

As well as work in relation to the financial statement risks and value for money risks, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures	
Required by standards	<ul style="list-style-type: none"> ▶ Addressing the risk of fraud and error ▶ Significant disclosures included in the financial statements ▶ Entity-wide controls ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements ▶ Auditor independence
Required by the Code	<ul style="list-style-type: none"> ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We will communicate our materiality level to you after we have completed our interim procedures in the week commencing 7 March 2016.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Timetable of communication, deliverables and insights

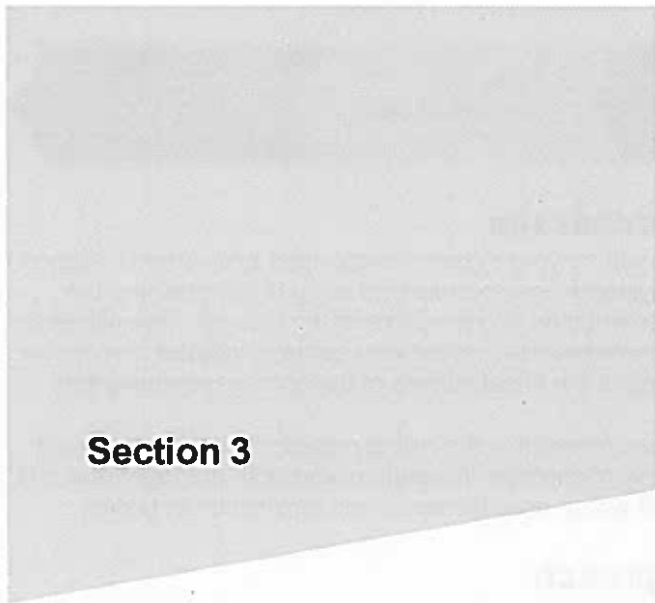
We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Corporate Affairs and Audit Committee for the 2015/16 accounts. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

We will provide a formal Audit Results Report to the Corporate Affairs and Audit Committee at year end for the Council's financial statements. This report will incorporate the outputs from our process and controls procedures and our year end audit procedures. From time to time matters may arise that require immediate communication with the Corporate Affairs and Audit Committee and we will discuss them with the Corporate Affairs and Audit Committee Chair, as appropriate.

We will also provide you with real-time control issues and observations as identified where these are significant in nature. Our reporting to the Corporate Affairs and Audit Committee will also contain practical business insights, updates on corporate governance and regulatory matters.

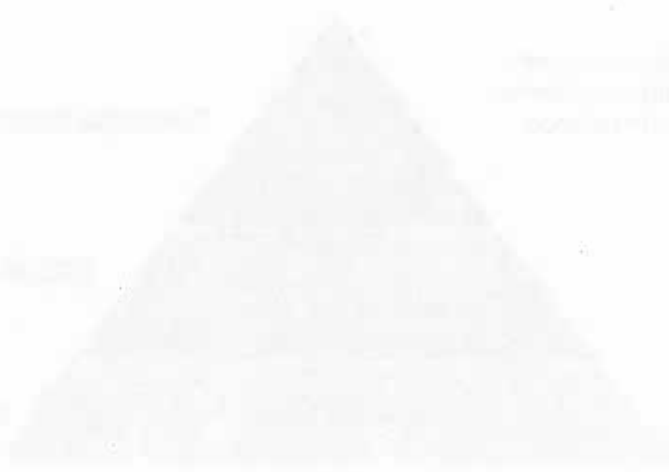
Following the conclusion of our audit we will also prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Corporate Affairs and Audit Committee timetable	Deliverables
Testing routine processes and controls	March 2016	June 2016	Progress Report
Year-end audit	July/August 2016	July 2016	Progress Report
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion) Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	September 2016	December 2016	Annual Audit Letter



Section 3

Controls considerations



Controls considerations



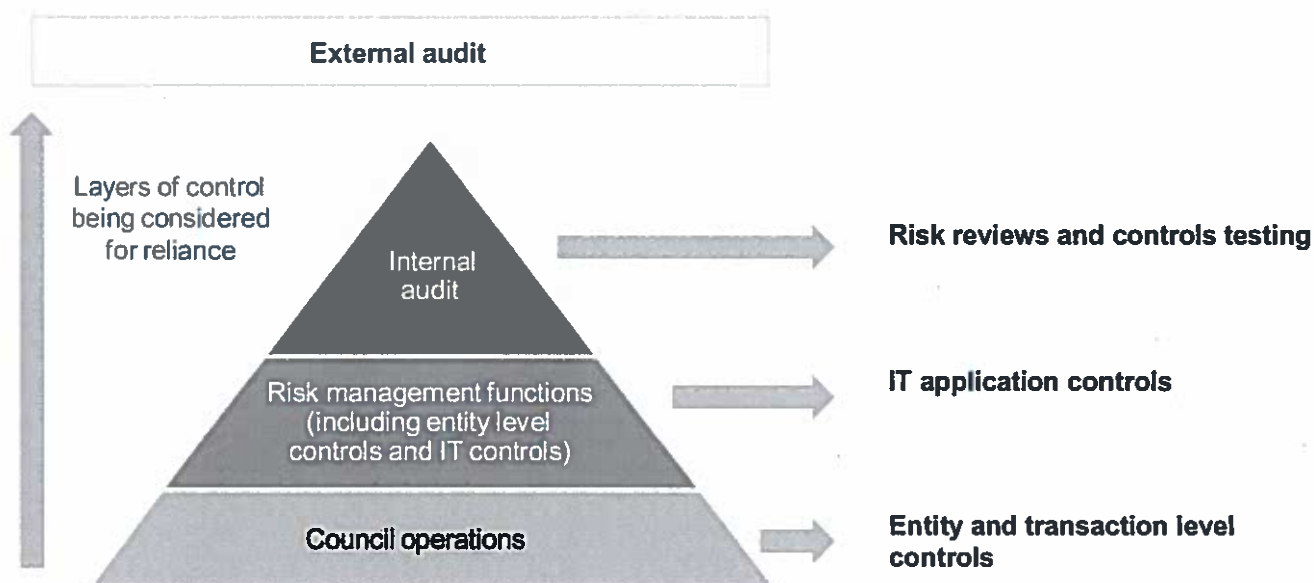
The Council's own assurance processes

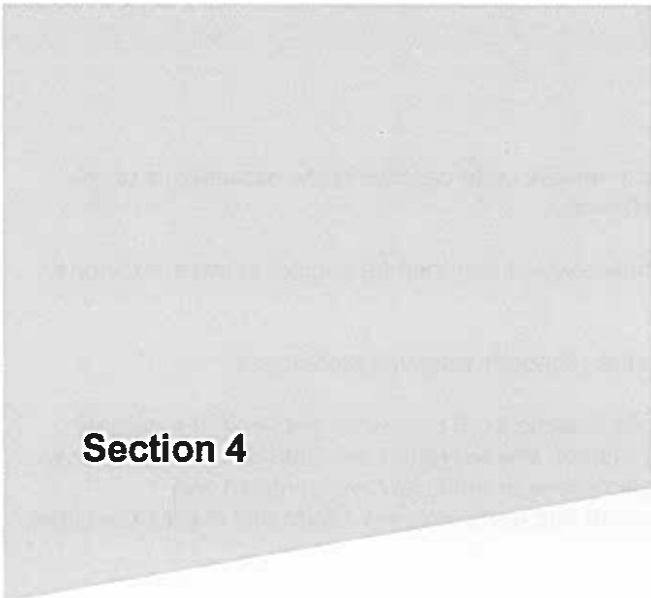
We will hold meetings with the finance team, including your systems accountant and wider IT support team, to ensure that our understanding of the systems and controls (including IT controls and the integrity of the IT applications) reflects the documentation and practices of the Council. This allows us to understand the extent to which the Council assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented.

A key element of the monitoring of the control environment is the rolling programme of internal audit assignments and their testing of the effectiveness of controls. We plan to work with management and internal audit to rely on the work of internal audit where possible and avoid duplication of testing.

Assessing a controls based approach

- ▶ We will complete an assessment of the key finance processes and controls and assess the opportunity to place reliance on certain controls.
- ▶ We will assess the general IT controls built into the Council's core IT applications, together with IT application controls over your critical business processes. We will assess the robustness of these as a basis for relying on the information which they provide.
- ▶ We will pay particular attention to controls around significant risk areas. We will gain an understanding of the Council's budgeting and budget monitoring process which will assist the audit of income and expenditure categories. We will further consider specific testing surrounding payroll and expenses.
- ▶ We will consider the various layers of assurance as demonstrated in the diagram below. This informs our interaction with internal audit.





Section 4

Service delivery

Service delivery

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques

For our 2015/16 audit we intend to focus our data analytic work on journal entries in the general ledger and payments made through the payroll system. We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Corporate Affairs and Audit Committee.

Internal audit

We have met with Helen Fowler, Audit & Assurance Manager at TVAAS, and have reviewed internal audit plans and the results of their work to date. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of land and buildings	Council Valuer EY property valuation experts
Pensions liability	Council Actuary EY actuarial experts

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable
- ▶ Assess the reasonableness of the assumptions and methods used
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd ("PSAA") by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2014/15 £	Outturn fee 2014/15 Prior auditor £
Opinion Audit and VFM Conclusion	115,037	153,382	153,382
Total Audit Fee – Code work	115,037	153,382	153,382
Certification of claims and returns	10,571	13,780	10,000
Non-audit work	-	-	10,000

All fees exclude VAT

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We can rely on the work of internal audit as planned
- ▶ Our accounts opinion and value for money conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the Council
- ▶ The Council has an effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council and the PSAA in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Changes in our audit scope

The scale fee published by the PSAA is based on the level of financial activity at the Authority during the 2013/14 financial year, and the risk factors described above.

During 2014/15, the Council's value for money conclusion was qualified and there are a number of significant issues reported by our predecessors that will need to be followed-up during 2015/16. This increases the level of audit testing required to obtain assurance over the Council's approach to securing value for money.

Due to this change to the scope of our work, we will look to agree fees with the Council for this additional work. We will provide an update to the Corporate Affairs and Audit Committee on the outcome of our discussion with the Council and any resulting change to the scale fee.

Your audit team

Your audit team will consist of members of the specialist Government & Public Sector assurance team based in the North East and will be led by Nicola Wright and Daniel Houghton. Nicola and Daniel both have significant experience of public sector audit and their role is expanded here. Nicola and Daniel will be supported by Nick Armstrong, who will lead the onsite field team. A summary of their role and experience is set out below

Nicola Wright

Executive Director

Tel: (0191) 269 4887

Mobile: 07341 078397

Email: nwright1@uk.ey.com

Background

- ▶ Nicola is an Executive Director in EY's Government and Public Sector (GPS) Assurance team. She has 18 years of experience in public sector external audit across local government, the NHS, housing, education and the charities sector

Role on audit

- ▶ Nicola will be the Executive Director responsible for delivering the audit, including agreeing the audit plan and annual audit letter, the quality of outputs and signing of opinions and conclusions
- ▶ She will also be responsible for liaison with Mike Robinson, the Chief Executive, and the Councillors, and attend all Corporate Affairs and Audit Committee meetings

Daniel Houghton

Manager

Tel: (0191) 269 4822

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Background

- ▶ Daniel is a Manager in EY's Government and Public Sector (GPS) Assurance team. He has over 14 years of experience in public sector external audit across central government, local government, the NHS, housing, education and charities sector

Role on audit

- ▶ Daniel will be the Manager responsible for overseeing the external audit of the Council and will be the main contact for day to day communications with the management team
- ▶ Daniel will also attend all Corporate Affairs and Audit Committee meetings alongside Nicola

Nick Armstrong

Audit Team Leader

Tel: (0191) 269 4943

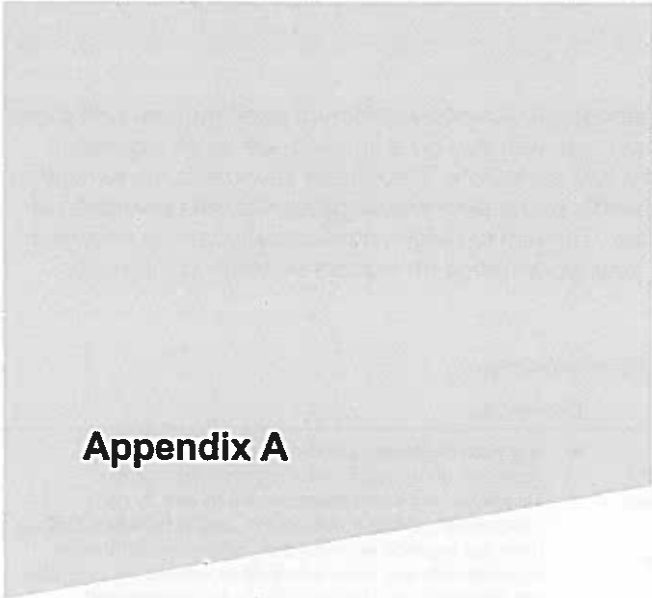
Email: narmstrong@uk.ey.com

Background

- ▶ Nick is an Executive in EY's Government and Public Sector (GPS) Assurance team. He is an experienced auditor with over 5 years of experience in the audit of commercial and not-for-profit entities

Role on audit

- ▶ Nick will lead the onsite field team and will be the main day to day contact for the finance team during the interim and final audit visits
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Appendix A

Independence

Independence

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review ▶ The overall assessment of threats and safeguards ▶ Information about the general policies and process within EY to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed ▶ Details of non-audit services provided and the fees charged in relation thereto ▶ Written confirmation that we are independent ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy ▶ An opportunity to discuss auditor independence issues

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding audit fees and we have not undertaken any non-audit work.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

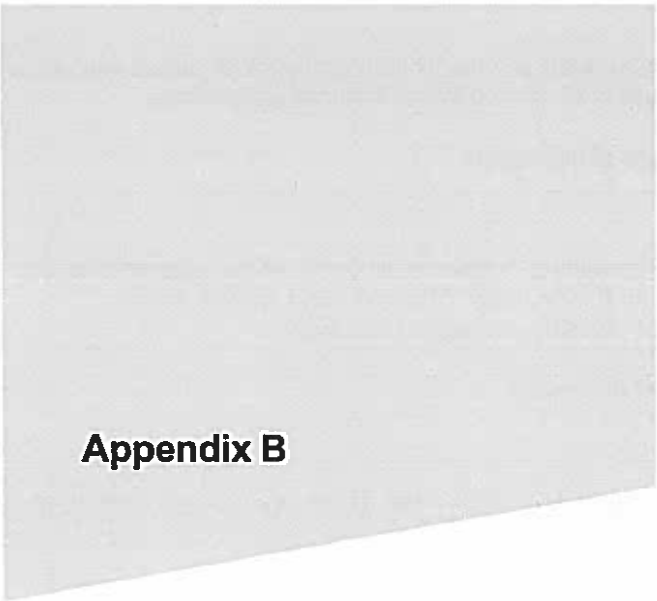
There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Nicola Wright, the audit engagement director and the audit engagement team have not been compromised.



Appendix B

Other required communications

Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here: <http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

There are certain communications that we must provide to the Corporate Affairs and Corporate Affairs and Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Planning Report
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Audit Results Report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Corporate Affairs and Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
Related parties Significant matters arising during the audit in connection with the Council's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Audit Results Report
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Corporate Affairs and Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Corporate Affairs and Audit Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Planning Report ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Planning Report ▶ Audit Results Report
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification ▶ Annual Audit Letter (if considered necessary)

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