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Middlesbrough Council
and Teesside Pension
Fund

Annual Audit Letter for the year
ended 31 March 2018

November 2018

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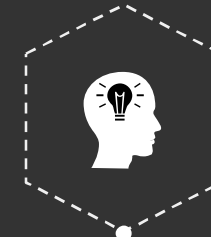
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of the audited body and via the PSAA website (www.psa.co.uk).

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 (updated 23 February 2017)' issued by PSAA set 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or associate partner contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Middlesbrough Council ("the Council") following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA)	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (continued)

As a result of the areas on the previous page, we have also:

Area of Work	Conclusion
Issued reports to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report for the Council relating to the financial statements audit was presented to the Corporate Affairs and Audit Committee on 26 July 2018. Our final Audit Results Report for the Council containing our findings from both the financial statements audit and value for money conclusion was presented to the Corporate Affairs and Audit Committee on 26 September 2018. Our Teesside Pension Fund Audit Results Report was presented to the Teesside Pension Fund Committee on 26 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice	Our certificate was issued on 27 November 2018.

In February 2019, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Nicola Wright

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities



Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit of the Council in our final 2017/18 Audit Results Report to the 26 September 2018 Corporate Affairs and Audit Committee, representing those charged with governance. In addition, we have also reported the detailed findings from our audit of Teesside Pension Fund to the 26 July 2018 Teesside Pension Fund Committee. As a result, we do not repeat those detailed findings for either of these audits in this Letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Planning Report that we issued in March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office, and issued an unqualified audit report on the Council and Pension Fund's Statement of Accounts on 31 July 2018.

Our detailed findings relating to the Council's Statement of Accounts audit were reported to the 26 July 2018 Corporate Affairs and Audit Committee, and the detailed findings relating to the Pension Fund's Statement of Accounts audit were reported to the 26 July 2018 Teesside Pension Fund Committee.

The key issues identified as part of our audit were as follows:

Significant Risk

Risk of fraud in revenue and expenditure recognition – Council only

Under ISA 240 (UK), there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Conclusion

We performed the following testing in relation to this risk:

- We reviewed and tested revenue and expenditure recognition policies;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition for evidence of bias;
- We tested material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

Our testing did not identify any material misstatements relating to revenue and expenditure recognition.

We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Misstatements due to fraud or error – Council and Pension Fund</p> <p>As identified in ISA (UK) 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>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> • We identified fraud risks during the planning stage of our audit; • We inquired of management about risks of fraud and the controls put in place to address those risks; • We developed our understanding of the oversight given by those charged with governance over management’s processes over fraud; • We considered the effectiveness of management’s controls designed to address the risk of fraud; • We determined an appropriate strategy to address those identified risks of fraud; and • We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. <p>We did not identify any transactions during our audit which appeared unusual or outside of the Council or Pension Fund’s normal course of business.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p>
<p>Valuation of land and buildings – Council and Pension Fund</p> <p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council’s accounts and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> • We considered the work performed by the Council and Pension Fund’s valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We sample tested key asset information used by the valuers in performing their valuations (e.g. floor plans to support valuations based on price per square metre); • We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code; • We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; • We considered changes to useful economic lives as a result of the most recent valuation; and • We tested accounting entries to ensure they had been correctly processed in the financial statements. <p>Our testing did not identify any material misstatements relating to the valuation of land and buildings in either the Council or Pension Fund’s financial statements.</p>

Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Valuation of complex pooled investment vehicles – Pension Fund only</p> <p>The Fund’s investments include complex pooled investment vehicles, which include pooled property funds and infrastructure funds.</p> <p>Judgements are taken by the Investment Managers to value these investments, whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated. Such variations could have a material impact on the financial statements.</p> <p>We have identified the Pension Fund’s investments in complex pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> • We documented and walked through the process and assessed the effectiveness of the design and implementation of the controls over the valuation process; • We obtained third party confirmations of the complex pooled investment vehicles at the Pension Fund’s year end from the investment manager; • We have reviewed the relevant investment manager controls’ reports for qualifications or exceptions that may affect the audit risk; • We reviewed the bases of valuation of the complex pooled investment vehicles and were satisfied that they were in line with the accounting policies; and • Where possible, we compared the movement in value of the investments in year to relevant benchmarks and trends to help provide further assurance that the valuation was reasonable. <p>Our testing did not identify any material misstatements in relation to the valuation of complex pooled investment vehicles (infrastructure and global property) disclosed in the Pension Fund’s financial statements.</p>

Other Key Findings	Conclusion
<p>Pension Liability Valuation – Council only</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council’s pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council’s balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> • We have liaised with the audit team for the Teesside Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council; • We have assessed the work of the Pension Fund actuary (AON Hewitt), including the assumptions they have used, by relying on the work of PwC – Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19. <p>Our testing did not identify any material misstatements relating to the valuation of the pension liability.</p>

Financial Statement Audit (continued)

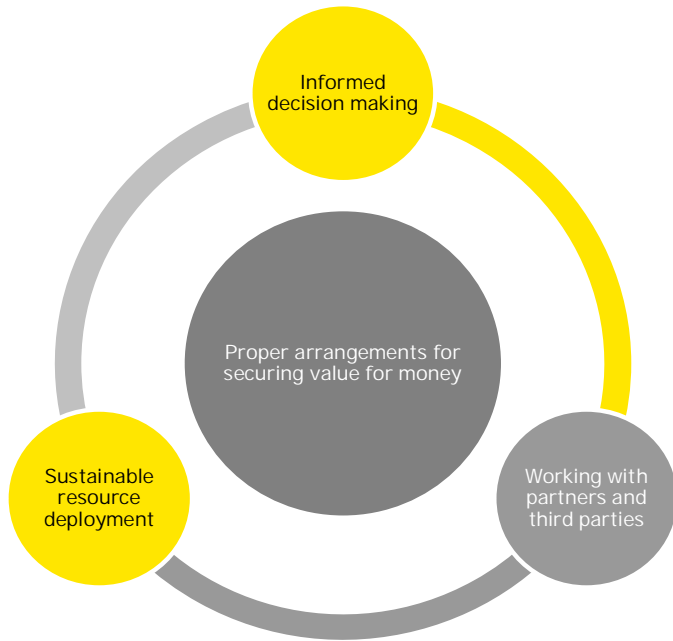
Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>Council</p> <p>We determined planning materiality to be £9m (2016/17: £10.9m), which is 2% of gross expenditure on the provision of services reported in the accounts.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>Pension Fund</p> <p>We determined planning materiality to be £77.9m (2017: £38.5m). This increase is due to a change in guidance which allows us to use 2% of net assets as our materiality threshold, rather than the 1% used in previous years.</p>
Reporting threshold	<p>Council</p> <p>We agreed with the Corporate Affairs and Audit Committee that we would report to the Committee all audit differences in excess of £0.45m (2017: £0.44m).</p> <p>Pension Fund</p> <p>We agreed with the Teesside Pension Fund Committee that we would report all audit differences in excess of £3.8m (2017: £1.5m).</p>



04 Value for Money



Background

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. This is known as our value for money conclusion.

For 2017/18 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 the Council's proper arrangements, we have drawn on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that the Council is required to have in place and to report on through documents such as the Council's annual governance statement.

Overall conclusion

We identified one significant risk in relation to the Council's value for money arrangements as part of our audit planning work. The tables on the following pages present our findings in response to the risk set out in our Audit Planning Report.

During the year, we also received additional information in relation to governance arrangements at the Council. Following our review of this information, we identified two recommendations for the Council to implement, which are detailed on page 16.

In our role as external auditors, we have also observed a growing level of tension between some Councillors and senior officers, that has the potential to seriously impact upon governance arrangements at the Council going forward. We have provided further detail in relation to this issue, as well as a recommendation for the Council to consider on page 17.

Following the conclusion of our procedures above, we have issued an unmodified value for money conclusion.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on the Council’s arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Property Disposal Governance Arrangements - During 2016/17, the Council introduced a new property disposal policy, to resolve weaknesses that had been identified in relation to property disposal governance arrangements in previous years.</p> <p>Our testing of this policy in 2016/17 identified that improvements had been made. However, as at 31 March 2017, these improvements were not sufficiently embedded, which resulted in us issuing the Council with an ‘except for’ VFM conclusion.</p> <p>Due to the ‘except for’ conclusion in the prior year, we included this area as a significant risk in 2017/18 and have performed additional work to establish whether the property disposal policy is now sufficiently embedded.</p>	<p>Take informed decisions</p>	<p>We completed the following work in this area:</p> <ul style="list-style-type: none"> • We reviewed the Asset Disposal Policy presented to the Executive Sub Committee for Property on 7 December 2016. We then requested further information to support compliance with specific areas of the policy; • We selected a sample of eight active and eight pipeline disposals and tested these assets to ensure that the process undertaken so far by the Council was in line with the Asset Disposal Policy; and • We considered Internal Audit’s findings in relation to asset disposal governance arrangements at the Council. <p>Our testing of the arrangements identified one recommendation. This relates to establishing a clear definition of the difference between active and pipeline disposals in the Asset Disposal Policy.</p> <p>No other material issues were identified in our testing of this risk.</p>

Value for Money Risks – Other matters

In June 2018, we received additional information relating to the governance arrangements at the Council. Following review of the additional information received, we identified the following areas where we believe improvements are required in the Council's governance arrangements.

What are our findings?	What arrangements did the risk affect?	Recommendation
<p>Due diligence procedures – Concerns were highlighted regarding the due diligence procedures performed by the Council when entering into new arrangements during 2017/18.</p> <p>We tested two new arrangements that the Council entered into during 2017/18 and identified that the Council completed credit checks for the new parties. However, we identified that there is no “standard” due diligence policy or procedures.</p>	<p>Take informed decisions</p>	<p>We recommend that the Council introduce a standard approach to due diligence that details the minimum due diligence procedures that the Council is expected to complete, as well as who is required to review and approve the due diligence procedures that have been completed and how these are communicated as part of the formal reporting process.</p>
<p>One stop shop – The One Stop Shop system is used by the Council, so that Councillors can request further information or action from officers. Concerns were highlighted that some of the requests raised by Councillors are not responded to. In order to verify if this was the case, we performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained copies of the Members' Handbook setting out how the One Stop Shop operates; • For the One Stop Shop requests highlighted in the information provided, we verified with officers if responses had been provided; and • We obtained details of the number of One Stop Shop requests made during 2017/18. <p>From our testing, we identified that there is a system to ensure that all requests are responded to. However, due to the volume of requests, officers stated that it can be challenging to keep track of the responses provided. This is exacerbated by a large volume of requests from individual Councillors, and follow up queries where officers may consider that the query has been closed, but this has not been clearly communicated. As a result some queries are not formally responded to via the One Stop Shop system.</p>	<p>Take informed decisions</p>	<p>We recommend that the Council undertakes an Internal Audit of the One Stop Shop process in order to identify improvements in the controls and processes. It is our view that the performance of this review will strengthen the processes, helping to ensure that no requests go unanswered, and also providing assurance on the operation of the system.</p> <p>This review should consider:</p> <ul style="list-style-type: none"> • Response times and how these are monitored; • Monitoring of unanswered requests; and • Processes where information is not provided and documentation of why this has occurred, ensuring an audit trail is kept.

Value for Money Risks – Other matters

During the 2017/18 audit cycle, we received a high volume of correspondence from Councillors, highlighting governance concerns at the Council. We assessed all information received and, where necessary, completed additional testing in order to assess any impact upon our value for money conclusion. The information received highlighted that the working relationship between some Councillors and senior officers is strained and we have commented on this further below.

What are our findings?	What arrangements did the risk affect?	Recommendation
<p>Councillor and Senior Officer relationships – Based on our review and testing of the information provided during 2017/18, as well as our attendance at Council meetings during the year, we have observed that the relationship between some Councillors and senior officers is strained.</p> <p>This appears to be due to a mutual level of mistrust. Officers consider that the level of challenge provided by some Councillors is excessive. Officers have also noted that they are required to spend disproportionate amounts of time on issues that, in their opinion, have been previously addressed. We note that concerns about the style of communication between members and officers have also been expressed that have resulted in Standards Committee action.</p> <p>In contrast, some members consider that the information provided by officers, in relation to their challenge, is in some cases not adequate or is deliberately withheld, and as a result they are unable to make informed decisions. This has also led to members sharing concerns directly with internal and external audit regarding ongoing matters as a way to address their concerns, rather than being confident to address matters with the responsible statutory officers and ultimately the head of paid service.</p> <p>We have assessed the concerns of both the members and officers and have not identified any material governance failings that impact upon our 2017/18 value for money conclusion. However, we have observed and consider that the level of mistrust is directly impacting upon the efficient operation of the Council, and in our opinion a resolution to these differences is urgently required, to reduce the potential for such failings in the future. This will involve action from both members and officers.</p>	<p>Take informed decisions</p>	<p>We recommend that an action plan is developed to address the cultural and relationship issues that exist. It is for the parties involved to decide how they wish to proceed, however we recommend externally facilitated sessions with experts in conflict management, where the concerns of both parties can be discussed and resolutions identified.</p>



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Pension Fund Annual Report

As part of our audit of Teesside Pension Fund, we are required to review the Pension Fund's Annual Report to ensure that it is consistent with the Pension Fund's financial statements presented in Middlesbrough Council's Statement of Accounts.

Following our review of the Pension Fund Annual Report, we identified no inconsistencies between the Annual Report and the audited financial statements of the Fund. We therefore issued an unqualified consistency opinion on the Pension Fund's Annual Report on 31 July 2018.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any formal objections to the 2017/18 financial statements from members of the public.

Other Reporting Issues (continued)

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2018. In our professional judgement, the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

We did not identify any significant weaknesses as part of our financial statements audit. However, we did identify one control weakness as part of our value for money audit procedures. This relates to the Council developing clear definitions of what active and pipeline property disposals are, and then including these definitions in the Asset Disposal Policy. This recommendation has been raised as, during our testing of property disposal governance arrangements, we selected a sample of active and pipeline disposals and found a lack of clarity in relation to how some disposals were classified. Nevertheless, we are satisfied that the Council followed the Asset Disposal Policy.



06

Focused on Your Future



Focused on Your Future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets is calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Code of Practice on Local Authority Accounting has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets; • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities, Council Tax and Business Rates income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Code of Practice on Local Authority Accounting has been issued, the impact on local authority accounting is becoming clear. As the vast majority of revenue streams of local authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; due to the revenue streams of local authorities, the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on local authority trading companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



Focused on Your Future (continued)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Code of Practice for Local Authority Accounting has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Code is issued and any statutory overrides are confirmed, there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

07 Audit Fees

Audit Fees

Fee analysis

We have set out below our audit fees for the 2017/18 audit.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Fee - Code work - Council	115,037	115,037	115,037
Fee - Code work - Pension Fund	28,535	28,535	28,535
Additional Fee - VFM extended procedures	26,000*	-	50,000
Fee - Housing Benefit certification work	10,571	10,571	10,335
Additional Fee - Housing Benefit certification work	TBC	-	3,600
Total audit	180,143	154,143	207,507
Non audit work - other certification work	4,000	-	4,000
Total fees	184,143	154,143	211,507

* We are requesting a scale fee variation for the additional work undertaken in respect of the Value for Money risks in 2017/18. This fee has been agreed with officers and we are in the process of informing the PSAA.

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