



Middlesbrough Council Audit Results Report

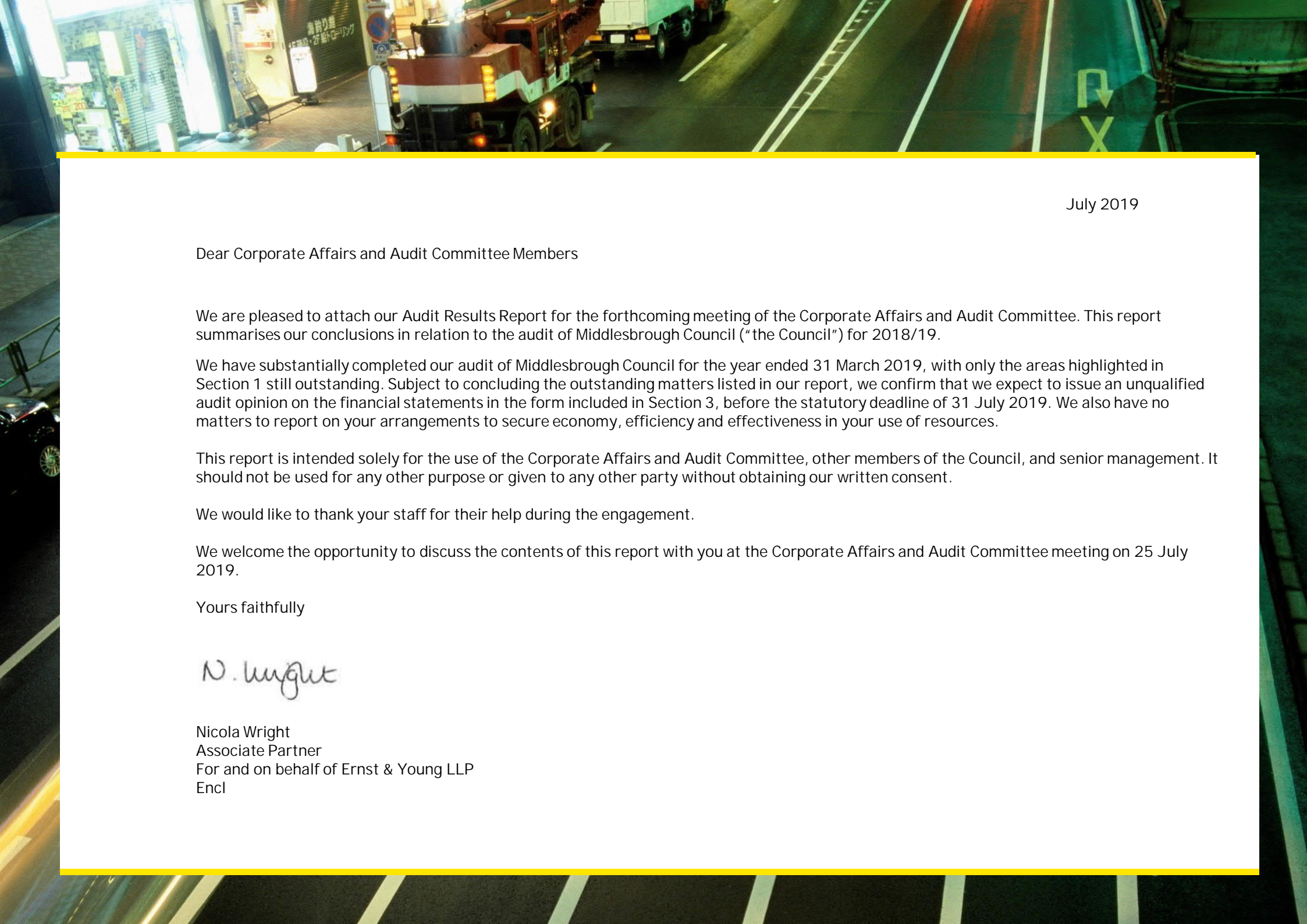
Year ended 31 March 2019

July 2019



EY

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July 2019

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our conclusions in relation to the audit of Middlesbrough Council ("the Council") for 2018/19.

We have substantially completed our audit of Middlesbrough Council for the year ended 31 March 2019, with only the areas highlighted in Section 1 still outstanding. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form included in Section 3, before the statutory deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Corporate Affairs and Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee meeting on 25 July 2019.

Yours faithfully



Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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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 each audited body and via the PSAA website (www.psa.co.uk). This 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 April 2018)' issued by the 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 report is made solely to the Corporate Affairs and Audit Committee and management of Middlesbrough Council in accordance with the Statement of Responsibilities. It is addressed to the Members of the Corporate Affairs and Audit Committee and management of Middlesbrough Council, 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

Scope update

In our Audit Planning Report, presented to the 7 March 2019 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft 2018/19 financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £8.8m (Audit Planning Report £8.1m). This results in updated performance materiality, at 75% of overall materiality, of £6.6m, however our threshold for reporting audit differences to the Corporate Affairs and Audit Committee has remained the same at £0.4m.

Amendment to risk assessment

Following the presentation of the Audit Planning Report to the Corporate Affairs and Audit Committee, a further inherent risk was identified. This risk relates to the upgrading of the General Ledger during the year. Further details relating to this risk, along with the procedures performed, can be viewed in Section 2 of the report.

Status of the financial statements audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears in Section 3. However until work is complete, further amendments may arise.

Outstanding Items

- Review of the financial instruments disclosures;
- Review and testing of the Expenditure and Funding Statement;
- Completion of exit packages testing;
- Receipt of the revised IAS 19 report from the Council's Actuary;
- Review and testing of the Capital Expenditure and Capital Financing note;
- Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
- Review of the final accounts; and
- Final review of audit work completed and audit completion procedures.

Executive Summary

Audit differences

There are no unadjusted audit differences arising from our audit. There were some changes made to the draft financial statements and we summarise these in Section 4 of this report.

Objections

We have received no objections to the 2018/19 accounts from members of the public.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have not identified any significant weaknesses in controls that we wish to bring to your attention.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Corporate Affairs and Audit Committee.

Independence

Please refer to Section 8 for our update on Independence.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified the following significant risks:

- Prior year value for money recommendations; and
- Financial sustainability.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We are satisfied that the Annual Governance Statement complies with guidance and is consistent with other information from our audit of the financial statements. We have suggested some updates to the wording including in the Annual Governance Statement, which have been actioned by management. We therefore do not have any other matters to report.

We are required to perform procedures required by the National Audit Office (“NAO”) on the Whole of Government Accounts submission. This work is ongoing at the time of writing this report.

We have no other matters to report.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240, 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.

What judgements are we focused on?

The main judgements we focussed on were:

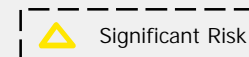
- Expenditure accruals totalling £31.9m;
- Manual debtors totalling £24.6m; and
- Grant income recognised in year that included terms and conditions of £35.9m.

What did we do?

- We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure accruals, for evidence of bias;
- We tested grant income with terms and conditions attached to ensure that where management judgements had been made relating to the recognition of the income, all terms and conditions had been achieved;
- We tested capital expenditure incurred during the year to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue; 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.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

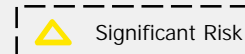
What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We did not identify any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.





Areas of Audit Focus

Other Area of Audit Focus

Valuation of land and buildings

What is the risk?

The value of land and buildings represents the most significant asset balance in the Council's financial statements, and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

- We have considered the work performed by the Council's valuer, Kier, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have 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 have reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.



Areas of Audit Focus

Other Area of Audit Focus

Pension liability valuation

What is the risk?

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 administered by Teesside Pension Fund.

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. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt.

Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- We have liaised with the auditor for 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) 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;
- We have liaised with the Council and our actuarial team to assess reasonableness of additional pension liabilities recognised in the accounts this year, arising as a result of the McCloud judgement and GMP equalization; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

During the audit period, a material adjustment relating to the McCloud judgement was identified. This has changed the Council's Pension Valuation as at 31 March 2019. We have included additional information regarding this matter over the page.



Areas of Audit Focus

Pension Liability Valuation – McCloud/Sargeant

The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new career average earnings benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (Sargeant Judgement) and the judiciary (McCloud Judgement) resulted in unlawful age discrimination and given their similarity are also deemed to be applicable to the LGPS.

The Government was seeking to appeal against this decision, however on 27 June 2019 they were denied the right to appeal. Due to the original judgements being in place before 31 March 2019, all scheduled and admitted bodies of the LGPS are being asked to consider the impact of the McCloud judgement on their pension valuations as at 31 March 2019.

Since 27 June 2019, the Council has requested that the actuary, Aon Hewitt, re-run their year end pension valuation, taking into account the McCloud judgement. This revised report was received on 11 July 2019, and also takes into account updated asset values for the Council (asset values are usually based on an estimated position) and Guaranteed Minimum Pension provisions.

At the time of writing this report, we have not yet reviewed the updated IAS19 report, but we will provide further commentary at the Corporate Affairs and Audit Committee on 25 July 2019.



Areas of Audit Focus

Other Area of Audit Focus

Implementation of new accounting standards

What is the risk?

The CIPFA Code of Practice implements International Financial Reporting Standard (“IFRS”) 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers, for the first time this year.

IFRS 9

This new accounting standard changes:

- How financial assets are classified and measured;
- How the impairment of financial assets is calculated; and
- The disclosure requirements for financial assets.

IFRS 15

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.

What did we do?

Our work in this area focussed on:

- Reviewing the Council’s assessment of the expected impact of the standards on the financial statements;
- Reviewing the accounting policies amended as part of the implementation to ensure compliance with the requirements of the CIPFA Code of Practice; and
- Reviewing that the additional disclosure requirements have been included in the financial statements.

What are our conclusions?

At the time of writing this report, we have not identified any material issues with the implementation of the new accounting standards.



Areas of Audit Focus

Other Area of Audit Focus

General Ledger system upgrade

What is the risk?

During 2018/19, the Council have upgraded their General Ledger system.

With any upgrade, there is a risk that the new system does not operate as expected and that data transfers to the new system are incomplete or inaccurately recorded.

What did we do?

Our work in this area focussed on:

- Substantively testing the data transfers that occurred as part of the upgrade to ensure that the information held in the upgraded General Ledger system is materially correct.

What are our conclusions?

At the time of writing this report, we have not identified any material issues with the upgrading of the General Ledger system.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Expenditure and Funding Statement;
- Notes to the Core Financial Statements 1 to 47;
- Collection Fund Income and Expenditure Account and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Middlesbrough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report by the Chief Finance Officer set out on pages 3 to 18, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Middlesbrough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Responsibilities – Middlesbrough Council set out on page 19, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Middlesbrough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Wright (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne

The maintenance and integrity of the Middlesbrough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Corrected misstatements

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

- Note 12 - Officers' Remuneration – Senior Employee's Remuneration: Two inconsistencies were identified between payroll records and the disclosure. These have been agreed with management who have amended the financial statements.
- Note 12 – Officers' Remuneration – Other Employee's Remuneration: A small number of banding errors were identified in the note. These have been agreed with management who have amended the financial statements.
- Note 12 – Officer's Remuneration – Exit Packages: A small number of banding errors were identified in the note. These have been agreed with management who have amended the financial statements.
- Note 28 – Cash and cash equivalents: £622k of Academy Schools Balances were included in the Council's Balance Sheet at the year end. These cash balances relate to academies that transferred to academy status during 2018/19. This has been agreed with management who have amended the financial statements.
- Pension Valuation at 31 March 2019: Due to the Government's appeal against the McCloud Judgement being refused on 27 June 2019, all LGPS scheduled and admitted bodies have been asked to consider the impact of the judgement on their pension valuations as at 31 March 2019. The Council has decided to obtain a new pension valuation, which will materially change the valuation included in the Council's accounts. We have not yet completed our work in this area.
- There have been a small number of typographical and consistency errors included in the financial statements. All differences have been amended by management.

No unadjusted misstatements have been identified.



05

Value for Money Risks





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.

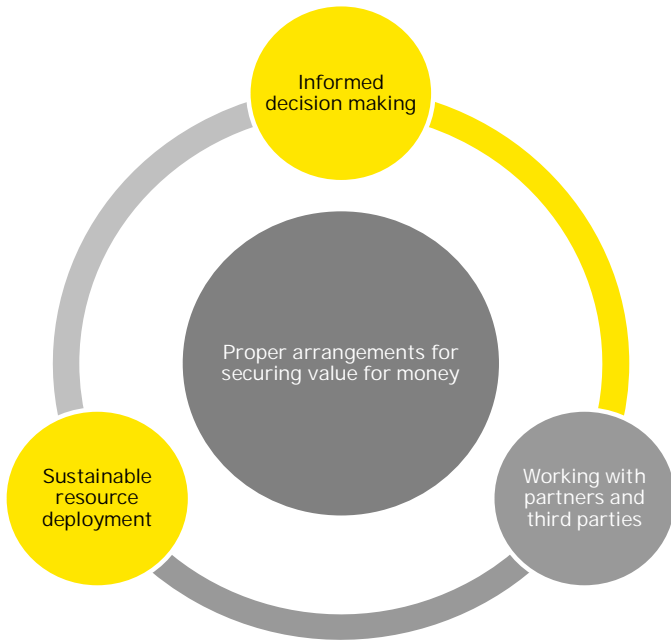
For 2018/19 this is based on the overall evaluation criterion:

"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.



Overall conclusion

We identified two significant risks in relation to value for money arrangements as part of our audit planning work. The table on the following pages present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect to have no matters to report about your arrangements in relation to the significant risks highlighted in our Audit Planning Report.

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 your 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>Prior Year Value for Money Recommendations As part of our 2017/18 Audit Results Report, we made four value for money recommendations. These were:</p> <ul style="list-style-type: none"> • Asset disposal policy – a clear definition of the difference between active and pipeline disposals should be added to the asset disposal policy; • Due diligence – a standard approach to due diligence, detailing the minimum due diligence procedures that officers are expected to complete, should be established; • One Stop Shop – the Council should undertake an Internal Audit of the One Stop Shop process in order to identify improvements in the controls and processes in place; and • Councillor and Senior Officer relationships – the Council should look to introduce an action plan to address the cultural and relationship issues that exist between Councillors and Senior Officers. One potential solution may be externally facilitated sessions with experts in conflict management. <p>As these recommendations were raised in relation to our prior year value for money procedures, we believe that it is necessary to review the Council’s progress against each of the recommendations, when concluding on our value for money procedures in 2018/19.</p>	<p>Take informed decisions</p>	<p>Following the completion of our work, we have identified the following:</p> <ul style="list-style-type: none"> • Asset disposal policy – The Council has updated the asset disposal policy to include a clear definition of both active and pipeline disposals; • Due Diligence – In response to the recommendation, officers agreed that it was important that the due diligence procedures performed were clearly reported to Members as part of any decision making reports. This has been achieved through the introduction of additional guidance to officers including a requirement that due diligence procedures performed are reported as standard to Committees; • One Stop Shop – An Internal Audit review has been completed and the final report issued on 30 April 2019. This identified a number of improvements, however overall Internal Audit felt that an acceptable control environment was in place; and • Councillor and Senior Officer relationships – Senior Officers at the Council contacted all political parties along with the LGA, who were to act as the mediator. The majority of Councillors indicated that they would be happy to attend LGA facilitated sessions with Senior Officers, however a small number declined to take part. Following the recent election in May 2019 and the change in administration, Senior Officers and Councillors should focus on the relationships to help ensure that a similar situation does not occur again.

Value for Money Risks (continued)

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Financial Sustainability</p> <p>The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services.</p> <p>At the end of quarter three, the Council was forecasting an overspend against budget for 2018/19 of £577k. This overspend is largely due to significant overspends in both Adult and Children's services. In addition, over the next three years the Council is required to make £25m of savings. There is therefore significant pressure on the Council's finances over the coming years.</p> <p>In order to mitigate the developing risks, the Council has created an updated Medium Term Financial Plan that includes detailed savings plans for the full £24m of required savings. The Council has also introduced a dedicated Change Programme Manager, who will have responsibility for monitoring progress against each of the individual savings plans.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> • We have selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used; • We have discussed the Children's savings plans with the Director of Business Performance and Change – Children's Directorate to ensure that detailed plans were in place to deal with the pressure in this area; • We have reviewed the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and • We have reviewed the Medium Term Financial Plan (MTFP) and tested the reasonableness of a sample of the assumptions used. <p>Our testing identified that the Council overspent against its budget by £439k in 2018/19. This was largely due to the continued pressure in Children's Services, however we are aware that the Council has developed detailed savings plans for Children's Services going forward. These plans, along with the Council's other savings plans, include key milestones, which are monitored by the Change Programme Manager. Milestone variations on any of the Council's savings plans are reported to the monthly Change Programme Delivery Board where the reason behind the variation and future plans to mitigate any risks are discussed.</p> <p>The Council has significant savings to make over the course of the next three years, including £9.9m in 2019/20, but the Council does have detailed plans in place for this full amount.</p> <p>We have also reviewed the MTFP and are satisfied that the Council has been prudent in its use of assumptions, in particular around income streams.</p> <p>Overall, we are satisfied that the Council has a detailed MTFP, appropriate savings plans and a robust mechanism for monitoring the success of the Council's delivery against its plans, which would identify any significant variations early. However delivery of the budget will be a significant challenge for the Council in 2019/20.</p> <p>Based on the testing performed there is no impact upon our VFM conclusion from this risk.</p>



06 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Report by the Chief Finance Officer with the audited financial statements. We are satisfied that the Narrative Report is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We are satisfied that the Annual Governance Statement complies with guidance and is consistent with other information from our audit of the financial statements. We have suggested some updates to the wording including in the Annual Governance Statement which has been actioned by Management. We therefore do not have any other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Our work in this area is ongoing.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation this this



07

Assessment of Control Environment

Assessment of Control Environment

Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

Financial Statements audit

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 have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2019.

We complied with the FRC's Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Corporate Affairs and Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Corporate Affairs and Audit Committee on 25 July 2019.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements, other than as planned for certification of claims and returns.

	Planned fee 2018/19	Scale fee 2018/19	Final fee 2017/18
	£	£	£
Fee - Code work	88,578	88,578	115,037
Additional Fee - VFM extended procedures	-	-	26,000
Total audit fee	88,578	88,578	141,037
Fee - Housing Benefit certification work	10,500	N/A	10,571
Non audit work - other certification work	TBC	N/A	4,000
Total fees	99,078		155,608



09 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet are:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as our approach in prior years. The material Balance Sheet items we have tested are:

- Property, Plant and Equipment
- Heritage Assets
- Long Term Debtors
- Short Term Investments
- Short Term Assets Held for Sale
- Short Term Debtors
- Cash and Cash Equivalents
- Short Term Borrowing
- Short Term Creditors
- Long Term Borrowing
- Pension Liability
- Usable Reserves
- Unusable Reserves

Appendix B

Summary of communications





Date 	Nature 	Summary 
9 November 2018	Meeting	The associate partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss key issues at the Council and to debrief on the prior year audit.
5 February 2019	Meeting	The associate partner in charge of the engagement along with other senior members of the audit team, met with the management team to discuss key issues at the Council and plan the 2018/19 year end audit.
7 March 2019	Report	The Audit Planning Report, including confirmation of independence, was presented to the Corporate Affairs and Audit Committee.
25 April 2019	Report	The Annual Audit Fee Letter for 2019/20, as required under the PSAA terms of engagement, was provided to the Council.
5 July 2019	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
25 July 2019	Report	The Audit Results Report, including confirmation of independence, was presented to the Corporate Affairs and Audit Committee.

In addition to the above specific meetings and letters, the audit team met with the management team multiple times throughout the 2018/19 audit year to discuss audit progress and the latest developments at the Council.

Appendix C

Required communications with the Corporate Affairs and Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – presented March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – presented March 2019
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 – presented July 2019





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity'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 	No conditions or events were identified, either individually or together to raise any doubt about Middlesbrough Council's ability to continue for the 12 months from the date of our 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 • Material misstatements corrected by management 	Audit Results Report – July 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Corporate Affairs and Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial 	Corporate Affairs and Audit Committee – July 2019
Fraud	<ul style="list-style-type: none"> • Enquiries of the 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 • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Corporate Affairs and Audit Committee responsibility. 	<p>Corporate Affairs and Audit Committee – July 2019</p> <p>Audit Results Report – July 2019</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, when applicable:</p> <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 Council 	Audit Results Report – July 2019
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Council’s policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Corporate Affairs and Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report – March 2019</p> <p>Audit Results Report – July 2019</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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 – July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the 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 Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – July 2019

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Auditor's report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - July 2019
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report - March 2019 Audit Results Report - July 2019
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report - later in 2019

Management representation letter

Management Rep Letter

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 8HW

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council ('the Council') for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management representation letter

B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b) additional information that you have requested from us for the purpose of the audit; and
- c) unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [date]

Management representation letter

Management representation letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and confirm that we have not given any guarantees to third parties.

E. Subsequent Events

1. There have been no events subsequent to the period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement by the Finance Director.

2. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

Chief Finance Officer

Chair of the Corporate Affairs and Audit Committee

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