Middlesbrough Council

Provisional Audit Results Report

Year ended 31 March 2020

November 2020

Building a better working world

Private and Confidential

20 November 2020

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Corporate Affairs and Audit Committee Members

We are pleased to provide our provisional audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Middlesbrough Council for 2019/20.

We have substantially completed our audit of Middlesbrough Council ('the Authority or Council') for the year ended 31 March 2020.

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. As previously communicated, we intend to modify our value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020.

This report is intended solely for the use of the Corporate Affairs and Audit Committee, other members of the Authority, 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 26 November 2020.

Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Contents

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.psaa.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 PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report 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 director contact. If you prefer an alternative route, please contact Hywel Ball, 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 at the 5 March 2020 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. In our Audit Planning Report Addendum presented at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan and addendum, with the following updates to the scope of the audit:

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £9 million, with performance materiality at 75% of overall materiality of £6.8 million, and a threshold for reporting misstatements of £0.45 million. Our materiality threshold was set at 1.8% of the Authority's gross expenditure on provision of services. These thresholds were set in reference to the prior year Statement of Accounts.

The basis of our threshold, as 1.8% of gross expenditure on provision of services, remains appropriate however we reassessed the monetary value of our materiality levels upon receipt of the draft Statement of Accounts for 2019/20. Our audit procedures have been performed using a materiality of £8 million, with performance materiality at 75% of overall materiality of £6 million, and a threshold for reporting misstatements of £0.4 million.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 8.

Executive Summary

Status of the audit

We have completed a significant proportion of our audit of the Council's financial statements for the year ended 31 March 2020 and performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Authority's financial statements. As previously communicated, we intend to modify our value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the committee meeting.

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Teesside Pension Fund. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements. We cannot formally conclude the audit and issue an audit certificate until we have issued our consistency opinion on the Pension Fund Annual Report. We are satisfied that this requirement does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the financial statements 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.

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. The impact of this unadjusted audit difference would be to increase expenditure and decrease debtors by £0.6 million. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £4.7 million on the total comprehensive income and expenditure (£nil on the deficit on provision of services) which have been adjusted by management, along with one difference agreed in principle but still to be quantified and adjusted. Details can be found in Section 4 - Audit Differences.

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum 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 the "Areas of Audit Focus" section 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;
- 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.

Executive Summary

Control observations

Based on the work undertaken in line with our responsibilities, 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 and which is unknown to you.

We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

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 two significant risks related to the Authority's arrangements for securing value for money:

- the provision of Children's Services; and
- the financial sustainability of the Authority.

As communicated in our Audit Planning Report Addendum, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20 given the significant findings raised by the Ofsted inspection published in January 2020. We are therefore proposing to modify our value for money opinion in respect of the provision of children's social care services.

Except for the provision of children's social care services, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We are in the process of finalising our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority, including evaluating how the governance statement reflects the oversight during the year of the Authority's governance forums.

We can confirm that the Authority does not meet the size thresholds set out in the National Audit Office's Whole of Government Accounts (WGA) Group Audit Instructions which would require us to perform detailed testing of the Authority's WGA submission. We have not therefore performed detailed testing and have nothing to report in respect of the Authority's WGA submission.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.

02 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.

What judgements are we focused on?

We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of capital grants and contributions against revenue expenditure, inappropriate capitalisation of revenue expenditure and the omission of expenditure from the financial statements.

What did we do?

- We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions.
- We tested a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations.
- We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.
- We tested samples of invoice postings and cash disbursements made after 1 April 2020 to confirm whether the expenditure to which they relate has been recorded in the correct reporting period.
- We reviewed minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

What are our conclusions?

Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.

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 a sample of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements to ensure they were appropriate. Sample items were identified for testing based upon characteristics which could be indicative of management override;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant and / or unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

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

Subject to conclusion of the outstanding matters detailed in Appendix D, we are content that the financial statements are not materially misstated as a result of fraud or error.

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are 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 on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

- We considered the work performed by the Council'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 valuation (e.g. floor plans to support valuations based on price per square metre).
- We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.
- We reviewed assets not subject to valuation in 2019/20 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.
- We tested accounting entries to ensure they have been correctly processed in the financial statements.
- We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
- We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

What are our conclusions?

During the year, the Authority completed or was close to completion of three significant new investment properties – the two Centre Square buildings and TAMP. All three developments were undertaken to generate, rather than satisfy, demand and no tenancy agreements were in place at the time of their first valuations as at 31 March 2020.

We asked our EY Real Estate specialists to review the valuations of these three assets and concluded that their valuations were within the expected ranges. We do however note that the Authority's valuer adopted cautious assumptions about future occupancy levels and this resulted in valuations which were towards the bottom end of our expected range.

The draft financial statements include impairment charges of £13.6 million for TAMP and £7.9 million for the Centre Square buildings. TAMP was constructed by the Authority, however the Centre Square assets are recognised under finance leases. We have agreed with management in principle that the initial recognition during the year of both the Centre Square lease liabilities and the corresponding assets were overstated. Management are preparing revised calculations which will result in a lower lease liability and, by virtue of a lower initial asset valuation, a lower impairment charge or possibly even a small gain on revaluation at the year end.

The valuation as at 31 March 2020 is unaffected by the reassessment of the valuation on initial recognition.

Significant risk

Valuation of land and buildings (continued)

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are 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 on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

- We considered the work performed by the Council'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 valuation (e.g. floor plans to support valuations based on price per square metre).
- We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.
- We reviewed assets not subject to valuation in 2019/20 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.
- We tested accounting entries to ensure they have been correctly processed in the financial statements.
- We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
- We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

What are our conclusions?

We understand that since the valuation date, a number of medium or long-term tenancy agreements have been concluded covering the majority of floor space in the Centre Square buildings. We would therefore expect these assets to increase in value at their next valuation as some of the uncertainty over future occupancy levels can be unwound.

As noted in our Audit Planning Report Addendum, the valuation of the Authority's land and buildings as at 31 March 2020 was provided by the Authority's external valuer on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

Other than the assets discussed on the previous page, the Authority has relatively few assets, compared to other local authorities, which are of a commercial nature or held for capital appreciation and where the impact of Covid-19 on property values is likely to be most significant.

The financial statements include disclosure of this valuation basis as a critical judgement. We are content that these disclosures are appropriate.

This basis of valuation has not impacted the assurance we have been able to obtain over the valuation of property assets. We are therefore satisfied that land and buildings are not materially misstated.

Inherent risk

Valuation of defined benefit pension liabilities

What is the risk?

Accounting for the Authority participating in the Local Government Pension Scheme (LGPS) involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the Authority's actuary.

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 liaised with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. The audit of the Pension Fund is also performed by EY and shares the same Engagement Manager and Senior as our audit of the Authority.
- We 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 the National Audit Office for all Local Government sector auditors and the review of this work by our own EY actuarial team.
- We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

The audit of the Teesside Pension Fund identified misstatement within the asset values provided to the Authority's actuary to inform the preparation of the Authority's IAS 19 report.

Management has assessed the impact on the Authority's allocated share of the Pension Fund's assets and quantified an overstatement of the Authority's pension assets of £4.7 million. We concur with this assessment and the amount has been adjusted for in the Authority's financial statements – see Section 4.

The valuation of the Authority's pension liabilities as at 31 March 2019 were adjusted in 2018/19 to reflect the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case. The valuation of liabilities at 31 March 2020 continues to include this adjustment, updated in-line with other assumptions.

On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS. We are satisfied that the assumed remedy reflected in the valuation of the Authority's pension liabilities as at 31 March 2020 is materially consistent with the remedies proposed by MHCLG for active members.

The valuation of scheme liabilities as at 31 March 2020 does not include the impact of remedies affecting deferred and pensioner members. We do not expect these liabilities to be material, however we are engaging our EY Pensions specialists to confirm this for us. This is noted as an outstanding matter in Appendix D.

The Authority's net pension liabilities were also impacted by decreases in the valuation of pension assets in the fourth quarter of the year as a result of the Covid-19 pandemic. We have obtained assurance from the Pension Fund auditor over these movements.

Inherent risk

Going concern and associated disclosures

What is the risk?

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires that the financial statements of Local Authorities are prepared on a going concern basis, unless there is an intention by government that the services provided by the Authority will no longer be provided.

Due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Authority in the financial statements, that detail the full financial and operational impact of Covid-19 during 2020/21 and beyond.

What did we do?

- We reviewed management's assessment of going concern, including management's identification of the events or conditions impacting upon going concern, including for consistency with the financial statements and for evidence of bias.
- We reviewed the financial modelling and forecasts prepared by management, including any updates to the Medium Term Financial Plan. This included consideration of the key assumptions, any stress testing applied to those assumptions and potential risks to future cashflows.
- We reviewed the liquidity position of the Authority for a period of at least 12 months from the date of our audit report.
- We reviewed the going concern disclosures within the financial statements to ensure they are appropriate and represents a true and fair view of the Authority's financial position.

What are our conclusions?

On 2 September 2020, the Council approved the transfer of the £4.9 million balance on the Authority's Investment Fund Contingency Reserve into the General Fund to cover the estimated £4.4 million impact of the Covid-19 pandemic on the Authority's 2020/21 budget. Our review of management's estimation of the impact of the pandemic on the Authority's 2020/21 budget has not identified any issues with this estimate.

The Authority has sufficient reserves to absorb management's estimate of the impact on the 2020/21 budget, but will need to agree a budget for 2021/22 which balances after allowance for the impact of Covid-19 as further reserves are not available for transfer.

Our review of management's cashflow forecasts to 31 March 2021 also did not identify any matters. The Authority has sufficient liquidity, including from planned borrowing, to support management's forecast cashflows over the period to 31 March 2021. We have requested further cashflow forecasts for the period beyond 31 March 2021 from management, to allow us to assess the required period of at least 12 months from the date of our auditor's report.

We are also still to receive management's detailed assessment and disclosures in respect of going concern, although we have held discussions with management over the expected content of these disclosures.

The cashflows for the period after 31 March 2021 and the going concern disclosures are noted as outstanding items in Appendix D.

03 Audit Report

Audit report

Audit report

[TBC]

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 unadjusted differences

We have identified one audit difference which management have agreed to remain unadjusted. This concerns the incorrect recognition of £0.6 million of costs incurred in securing the surrender of a lease, to enable sale of the associated land. This amount was originally recognised in 2018/19 and continues to be carried on the Authority's balance sheet, when the correct treatment would have been to expense the amount at the time the costs were incurred. Clearance of this balance would increase the deficit on provision of services and net liabilities by £0.6 million.

Summary of adjusted differences

Differences impacting the Comprehensive Income and Expenditure Statement

We have identified one audit difference, which has been adjusted by management, which impacts upon the Authority's total comprehensive income and expenditure for the period. This concerns an understatement of the defined benefit pension liability as a result of an overstatement of the Pension Fund's assets within the information provided by the Pension Fund to the actuary to inform the calculations of individual employer liabilities, including that of the Authority. Correction of this matter resulted in an increase in net pension liabilities and the actuarial loss on pension assets of £4.7 million.

Differences not impacting the Comprehensive Income and Expenditure Statement

We have identified several other audit differences which are between lines within the balance sheet or the supporting notes, and hence do not impact upon the Authority's total comprehensive income and expenditure for the period. These are:

- A misclassification of £4.3 million within the creditors note, resulting in an overstatement of amounts due to central government bodies and an understatement of the amounts due to other entities. This arose from a late adjustment to release Covid-19 funding received in March 2020 from deferred income, however the adjustment to deferred income was made to a different line in the creditors note than the line containing the original balance.
- A misclassification of £1.9 million within the property, plant and equipment note, resulting in an overstatement of surplus assets and an understatement of land and buildings. This arose from a scaling error presenting the actual transfer of accumulated depreciation between these categories of £1,918 as £1,918,000.
- A misclassification of £1.1 m between borrowings and creditors, resulting in an understatement of borrowings and an overstatement of creditors. This arose from the separate recognition of accrued interest within creditors when the correct treatment is to include accrued interest within borrowings balances.
- An overstatement of £0.6 million of both cash and creditors, arising from the incorrect carry forward of balances in respect of school bank accounts.

Differences to be confirmed – management have agreed to adjust

As noted on page 11, we have agreed in principle with management that the lease liabilities and initial valuation of the Centre Square buildings are overstated. Correction of this will result in a decrease to lease liabilities and a decrease to the impairment charge for the year (and possibly recognition of a small gain on revaluation). The quantum of this misstatement is still to be determined and will be confirmed once we have reviewed management's revised calculations.

Audit Differences

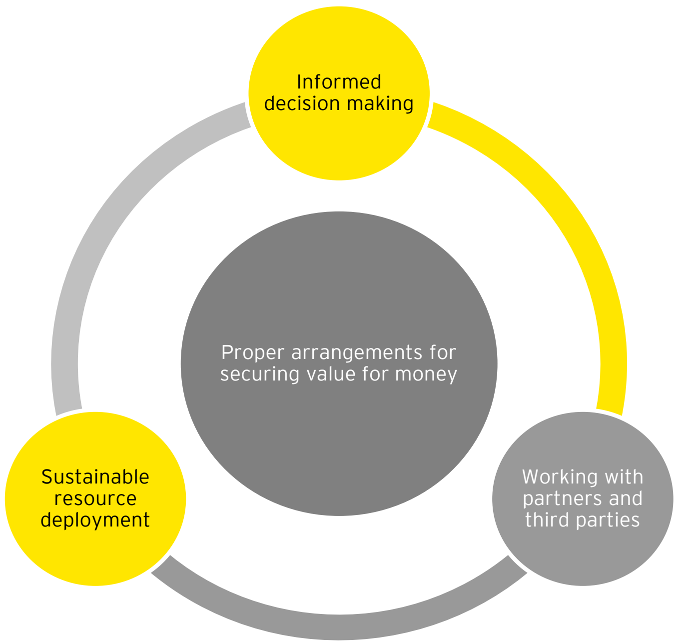
Comments on disclosures

During the course of our audit we have identified a number of disclosure matters which management have agreed to amend, including:

- **Going concern** – the disclosure supporting the adoption of the going concern basis of preparation in the draft Statement of Account was one paragraph. As set out earlier in the report, we expect to see more extensive disclosures supporting the adoption of the going concern basis. We expect these disclosures to include commentary on both the Authority's reserves position, including the planned transfer between reserves in 2020/21, and the Authority's liquidity position.
- **Valuation uncertainty** – we agreed with management a number of enhancements to disclosures in the financial statements of the uncertainty caused by the Covid-19 pandemic, including in respect of property, plant and equipment valuations and the valuation of pension assets.
- **Expenditure and Funding Statement** – we noted that the positioning and labelling of the Expenditure and Funding Statement gave the impression this was a primary statement, when it is in fact a note to the financial statements.
- **Officer's remuneration** – we identified the omission of one individual from the disclosures and the incorrect aggregation of salary and exit packages as a single figure, when the reporting framework requires separate disclosure.
- **Exit packages** – we identified some factual errors within the disclosure of exit packages.
- **Expected credit losses** – we identified that the Authority had not disclosed its quantification of expected credit losses on amounts owed to the Authority as balances were presented net of allowed for amounts. The requirement is to disclose both the gross balance owed and the amount allowed for as expected credit losses.
- **Statement of Cash Flows** – we identified a line in the Statement of Cash Flows which represented an amount other than what was described. This was simply a descriptive error and the amount was correct.
- **Restatements** – we identified that both the Comprehensive Expenditure and Income Statement and the Expenditure and Funding Statement had restated the prior period comparatives to reflect changes in the structure of the Authority, however neither was labelled as restated in the disclosures.
- **Internal Consistency** – we noted several instances of internal inconsistency or casting errors.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 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.

Impact of Covid-19 on our Value for Money assessment

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment, auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we require to bring to your attention.

In light of the observations and conclusions set out in the Ofsted report of January 2020, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. We therefore intend to modify our value for money opinion in respect of the provision of children's social care services, further details of which are provided on the next pages.

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?
Financial sustainability	Sustainable resource deployment	We have reviewed the financial outturn of the Authority against budget and note that the Authority's revenue activities were overbudget by £6.6 million for 2019/20. As a result, the Authority's general fund balance at 31 March 2020 was down to the minimum level prescribed by the Section 151 Officer. The overspend in 2019/20 was driven by children's services, which as a directorate overspent by £7.2 million with all other parts of the Authority delivering a net underspend of £0.6 million. We made enquiries of management and reviewed the assumptions used in the 2020/21 budget, which was set prior to the Covid-19 pandemic, to confirm they were reasonable. We note that the budget includes an additional £3.5 million of funding for children's services to mitigate demand pressures in that service, in addition to more general inflationary pressures. Despite these challenges, we note that the Authority had identified schemes for the full £6.4 million of required savings to achieve a balanced budget in 2020/21 without utilising reserves. We also made enquiries of management and reviewed assumptions used to quantify the impact of the Covid-19 pandemic on the 2020/21 budget. Management estimate that they will need to utilise £4.4 million of reserves in 2020/21 due to additional cost pressures and lost income as a result of the pandemic, after allowing for additional funding. The Authority has insufficient reserves within the general fund to accommodate this impact, therefore management has proposed to release the £4.9 million set aside in the Investment Fund Contingency Reserve to maintain the general fund above the minimum prescribed level of £9.4 million. Management therefore have arrangements in place to manage the impact of the Covid-19 pandemic on the Authority for 2020/21, however future budgets will need to address the longer term impacts of the pandemic without ongoing reliance on reserves.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Provision of Children's Services	Take informed decisions	On 24 January 2020, the Office for Standards in Education, Children's Services and Skills (Ofsted) released the results of its inspection of the Council's children's social care services performed between 25 November 2019 and 6 December 2019. The report concluded that the quality of the Council's children's services had deteriorated since the previous inspection in 2015 and were now inadequate. Following publication of the Ofsted report, management developed an Improvement Plan to address the findings raised by Ofsted. Given its wide reaching scope, it took time for management to implement the Improvement Plan and, due to the relatively late stage of the year at which the Ofsted report was released, this was still in progress at the year-end. On 4 June 2020, the Secretary of State appointed Commissioner for Children's Services in Middlesbrough published a follow-up report which concluded that the Council should be "commended" for its response to the Ofsted report and that "there is sufficient confidence in the changes being made to indicate that this is not a Local Authority where we should move quickly to consider alternative delivery mechanisms". On 23 September 2020, Ofsted performed their first monitoring visit to the Authority since their report. The final report from Ofsted on the monitoring visit has not been released as of the date of this report, however we have reviewed the draft version provided to management. We note it identifies several areas of children's social care services where the Authority has made improvements since the original report, however it also highlights the significant work still to be done by the Authority to bring the quality of other parts of the service up to the required standard. Whilst the original Ofsted inspection took place between 25 November 2019 and 6 December 2019, the nature of the issues raised are such that the report's findings are indicative of the effectiveness of the Council's children's social care services for the period between 1 April 2019 and the dates of inspection. The reports of the appointed Commissioner for Children's Services in Middlesbrough and the Ofsted monitoring visit support that the Authority has since put in place appropriate governance structures to respond to the Ofsted findings, and we note management's understanding of the performance of the service in particular is highlighted as an area of improvement. The majority of these structures were however implemented very late in, or after, the period under audit. We are therefore unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. Accordingly, we intend to modify our value for money opinion for 2019/20 with regards to the provision of children's social care services. We expect that we will continue to monitor management's implementation of the Improvement Plan, including any further assessments by external parties, as part of our 2020/21 audit.

06 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 Statement of Accounts 2019/20 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. Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements. We are in the process of finalising our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority, including evaluating how the governance statement reflects the oversight during the year of the Authority's governance forums.

Whole of Government Accounts
Alongside our work on the financial statements, we may also be required to review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the National Audit Office. For 2019/20, the Authority falls below the size thresholds requiring us to undertake detailed testing of the Authority's WGA return.

Other reporting issues

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 Authority 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 Authority, 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&I) 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 processes. We have one such matter to report.

We noted during the course of the audit that the advertised inspection period for the draft Statement of Accounts, of 27 July 2020 to 4 September 2020, lasted for 29 working days, and therefore did not meet the required 30 working day minimum inspection period required by the Accounts and Audit Regulations 2015. This was due to the fact the bank holiday on 31 August 2020 had not been taken into accounts. The inspection period was extended to 7 September 2020 after this matter was raised with management.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

08 Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement 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 that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Affairs and Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.

We confirm that we have undertaken non-audit work, in the form of reporting accountant certification reviews of claims and returns. Non audit work is work not carried out under the Code

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee – Code Work (notes 1,2)	TBC	91,078
Total Audit Fee – Code Work	**TBC**	**91,078**
Housing Benefit certification work	12,800	10,500
Teacher's Pensions certification work	5,000	4,500
Total Non-Audit Work	**17,800**	**15,000**
Total Fees	**TBC**	**122,002**

Note 1 – Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We have proposed a fee for our 2019-20 audit of £152,959, however we have not been able to agree this variation with management and have therefore asked PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £88,578.

Note 2 – Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations and on the efficiency of the financial statement production and audit. These matters will impact upon our final fee, which we are discussing with management.

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees;
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- Permitted services required by law or regulation will not be subject to the 70% fee cap;
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020): https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Appendix A

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 include:

- 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; and
- 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.

Appendix B

Summary of communications

Date	Nature	Summary
22/01/2020	Meeting	The audit team met with Veritau, recently appointed as the Authority's internal auditor, to discuss our respective audit plans for 2019/20 and matters of common interest.
04/02/2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
05/03/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
25/03/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the findings of the Ofsted report on children's services and the Authority's response to the findings.
22/06/2020	Meeting	The audit team met with management at the start of our year-end audit fieldwork to discuss key audit issues and agree on the practical aspects of undertaking the audit whilst working remotely.
08/07/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the impact of Covid-19 on the Authority and the implementation of the Authority's response to the Ofsted findings.
30/07/2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
02/10/2020	Meeting	The audit team met with management to discuss the Authority's budget for 2020-21, including the assumptions used and level of savings required.
11/11/2020	Meeting	The audit team met with management to discuss the main issues arising during the course of the audit and the arrangements for completion of our audit.
26/11/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.

In addition to the above specific meetings and reports, the audit team hold monthly meetings with the Authority's Section 151 Officer and other senior officers involved in financial reporting where developments in the Authority, emerging audit topics and the status of our audit are standing agenda items. Meetings since February have also included the impact on the Authority of the Covid-19 pandemic.

In line with government guidance and EY policy, discussions since the start of the Covid-19 pandemic have been held remotely.

Required communications with the Corporate Affairs and Audit Committee ('the 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:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report; and Audit Planning Report Addendum
Significant findings from the audit	▸ 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; and ▸ Other matters, if any, significant to the oversight of the financial reporting process.	Audit Results Report (this report)

Appendix C

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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; and ▸ The adequacy of related disclosures in the financial statements	Audit Results Report (this report)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▸ The effect of uncorrected misstatements related to prior periods; ▸ A request that any uncorrected misstatement be corrected; ▸ Corrected misstatements that are significant; and ▸ Material misstatements corrected by management	Audit Results Report (this report)
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▸ A discussion of any other matters related to fraud	Audit Results Report (this report)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management; ▸ Inappropriate authorisation and approval of transactions; ▸ Disagreement over disclosures; ▸ Non-compliance with laws and regulations; and ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report (this report)

Appendix C

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats; ▸ Safeguards adopted and their effectiveness; ▸ An overall assessment of threats and safeguards; and ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report; and Audit Results Report (this report)
External confirmations	▸ Management's refusal for us to request confirmations; and ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report (this report)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▸ Enquiry of the 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 Audit Committee may be aware of.	Audit Results Report (this report)
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report (this report)
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report (this report)

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance.	Audit Results Report (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditor's report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed; ▸ Breakdown of fee information at the completion of the audit; and ▸ Any non-audit work	Audit Planning Report; and Audit Results Report (this report)
Certification work	▸ Summary of certification work	Certification Report (to be presented at future meeting)

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going concern, including our internal consultation on the form of our audit opinion.	We are waiting on management to provide cashflow forecasts for the Authority for the period after 31 March 2021 and have only recently received updated going concern disclosures. We will need to review these and use them to inform our internal consultation on the Authority's going concern disclosures and the form of our audit opinion. This consultation will also include the final form of our modified VFM opinion.	Management (to provide) / EY (to review)
Centre Square finance lease	We have agreed with management in principle that the initial recognition of lease liabilities and assets for Centre Square were overstated and management are preparing revised calculations.	Management / EY
Impact of proposed McCloud remedy on deferred and pensioner member pension liabilities.	Management has provided information on the number of deferred and pensioner members potentially in scope of the proposed McCloud remedy. Our EY Pensions specialists are reviewing this information to confirm if our initial assessment that the impact would not be material remains correct.	EY
Testing of grant income	We have raised several queries with management, in respect of the amounts recognised in grant income for the period, which remain to be resolved.	Management
Updated Statement of Accounts	We only recently received an updated Statement of Accounts, reflecting changes agreed during the course of the audit. We need to review this and ensure that agreed changes have been implemented as expected.	EY
Internal review	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY
Letter of Representation	Receipt of signed letter of representation.	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

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 2020. 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 Middlesbrough Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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, 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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 2019/20 and are free of material misstatements, including omissions. We have approved 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 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [management to specify rationale].

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 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:

- 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;
- Additional information that you have requested from us for the purpose of the audit; and
- 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 all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

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: 26 November 2020.

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 year ended, as well as related balances due to or from such parties at the year 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.

Management representation letter (continued)

Management Representation Letter (continued)

7. From 25 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 consolidated and council 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 have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year 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 Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

1.We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialist that we engaged to evaluate the valuation of land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Tony Parkinson, Chief Executive

____

Ian Wright, Finance Director

____

Charlotte Benjamin, Monitoring Officer

Appendix F

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on the Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.