Middlesbrough Council
Audit Planning Report

Year ended 31 March 2022

November 2022

EY

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28 November 2022

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

Dear Corporate Affairs and Audit Committee Members

Audit Planning Report

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Affairs and Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures are substantially complete subject to final review, however our 2020/21 audit is not yet complete; should any material changes arise we will communicate these to the committee, as appropriate.

This report is intended solely for the information and use of the Corporate Affairs and Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this plan with you on 5 December 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid, Partner
For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (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 in legislation, 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. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Middlesbrough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Corporate Affairs and Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from prior year	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	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.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of land and buildings	Significant risk	No change in risk, change in focus	Land and buildings are the most significant assets on the Council's Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements. In the previous year we attached this risk to investment property and assets held as assets under construction which would be classified as investment property once completed. During 2021/22, the Council acquired further assets which are valued on a similar basis but not classified as investment property. We therefore attach this risk for 2021/22 to all land and buildings valued at 'market value'.
Accounting for infrastructure assets	Significant risk	New risk	We expect to conclude our 2020/21 audit with a limitation of scope included in our audit report with regards to infrastructure assets, as the Council is unable to evidence that infrastructure assets have been appropriately derecognised when replaced. This is a sector-wide issue and amendments to the Council's reporting framework are anticipated before we will conclude our 2021/22 audit to provide a way forward without continuation of the limitation of scope for 2021/22.

Overview of our 2021/22 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from prior year**	**Details**
Valuation of defined benefit pension liability	Inherent risk	No change in risk or focus	The defined benefit pension liability is the most significant liability on the Council's Balance Sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for these calculations can have a significant impact upon the financial statements.
Member and senior officer relationships	Significant value for money risk	Risk evolved during 2021/22	As part of our 2020/21 audit, we reported significant weaknesses in the Council's arrangements to secure value for money during the year to 31 March 2021 arising from strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Whilst the Council is now taking steps to address these weaknesses, our reporting of them was delayed until July 2022 by the significance and complexity of these matters and the Council's Improvement Plan was not implemented until after the end of the 2021/22 financial year. Multiple stakeholders have highlighted further deterioration in relationships at the Council during 2021/22, as highlighted in the final version of the Council's Annual Governance Statement 2020/21. The Council also had 5 of the 7 members of its Executive resign in May 2021 for reasons connected to these weaknesses.
Provision of Children's Services	Significant value for money risk	No change in risk or focus	External inspections considered during our 2020/21 audit demonstrate that the Council is making positive progress with its Children's Services Improvement Plan, but also highlight that the plan is multi-year and the Council has more to do before its Children's Services can be considered as adequate in all regards. There therefore remains a risk that the Council did not have 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 2021/22. We also note that the Council's Children's Services directorate consistently overspends against its allocated budget, generating an overspend of £8.3 million (21% of its budget) for 2021/22 prior to application of flexible capital receipts.

Overview of our 2021/22 audit strategy

In the prior year we also recognised the Council's disclosures around going concern as an inherent risk. Whilst the financial environment remains challenging for local authorities, the focus of our risk was on the uncertain impact of the Covid-19 pandemic on local authority finances. This is now much better understood by the Council and initial concerns of a significant adverse impact did not materialise. We do not therefore recognise a risk in this area for 2021/22 and will address as part of our required audit procedures.

Materiality

Planning materiality

£6.9m

Group materiality has been set at £6.9 million, which represents 1.5% of the gross expenditure on provision of services per the draft Statement of Accounts. We have decreased the threshold used for our materiality assessment from the 1.8% of gross expenditure used in the prior year due to the increased interest in the Council's Statement of Accounts as a result of the significant weaknesses in governance.

Performance materiality

£3.4m

Group performance materiality has been set at £3.4 million, which represents 50% of materiality. We have decreased the percentage of materiality used for performance materiality from 75% to 50% as the volume and size of misstatements identified in recent audits leads us to conclude there is a higher risk of undetected misstatement.

Audit differences

£0.3m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £0.3 million. The reporting threshold for the prior year's audit was £0.4m. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee.

The Council has produced group financial statements for the first time for 2021/22. The production of group financial statements has not had a significant impact on our determination of materiality as the gross expenditure of the subsidiary, Middlesbrough Development Company, is small in relation to the Council.

Other matters

During our audit procedures performed to date, we have identified one instance where the Council has not acted in accordance with applicable laws and regulations which we wish to bring to the attention of the Corporate Affairs and Audit Committee:

- Local authorities which receive amounts under the Community Infrastructure Levy (CIL) are required by The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019 to publish an annual Infrastructure Funding Statement by the 31 December following the end of each financial year. This requirement was introduced from the 2019/20 financial year, with the first Infrastructure Funding Statement due by 31 December 2020. The Council has not published Infrastructure Funding Statements for either the 2019/20 or 2020/21 financial years, and is therefore not complying with this requirement. Management have advised that they are intending to publish an Infrastructure Funding Statement by 31 December 2022 which will cover the 2019/20, 2020/21 and 2021/22 financial years, however we have not sought to assess whether this is an appropriate remedy under the governing legislation.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Planning Report outlines the work that we plan to perform to provide you with our audit opinion on whether the consolidated and single entity financial statements of Middlesbrough Council (the Council) give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended.

We are also required to report by exception if we conclude that you have not put in place proper arrangements to secure value for money in your use of resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts (WGA) return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this Audit Planning Report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditor's assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts have the following balances in the draft 2021/22 financial statements:

- Income Account: £457 million
- Expenditure Account: £461 million

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.

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 Covid-related grant funding, including incorrect identification of whether the Council is acting as the principle or an agent and whether any associated terms and conditions were met prior to recognition;
- 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 will we do?

- Review the accounting treatment of Covid-related grants for 2021/22, including for consistency with their treatment in 2020/21, to confirm that they have been correctly accounted for as either a principle or agent arrangement;
- Test a sample of Covid-related grants to ensure that any terms and conditions were met prior to recognition as income;
- Test a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions;
- Test a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations;
- Test a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards;
- Test samples of invoice postings and cash disbursements made after 1 April 2022 to confirm whether the expenditure to which they relate has been recorded in the correct reporting period; and
- Review minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

Our response to significant risks

Misstatements due to fraud or error*	What is the risk?	What will we do?
	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.	‣ Identifying fraud risks during the planning stages of our audit; ‣ Inquire of management about risks of fraud and the controls put in place to address those risks; ‣ Understand the oversight given by those charged with governance of management's processes over fraud; ‣ Consider the effectiveness of management's controls designed to address the risk of fraud; ‣ Determine an appropriate strategy to address those identified risks of fraud; and ‣ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements, consideration of whether accounting estimates are free from material bias and a review for unusual transactions.

Our response to significant risks

Valuation of land and buildings

Financial statement impact

Misstatements that occur in relation to the risk of valuation of land and buildings could affect the property, plant and equipment and investment property accounts. These accounts have the following balances in the draft 2021/22 financial statements:

- Property, Plant and Equipment: £423 million
- Investment Property: £27 million

What is the risk?

Land and buildings are the most significant assets on the Council's Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

Our assessment is that the risk of misstatement is greatest in those assets whose value is dependent to a large extent on the existence and terms of commercial tenancies.

The number and value of such assets has increased in recent years as a result of acquisitions by the Council, including the Cleveland Centre during 2021/22.

We therefore attach our significant risk to the Council's investment property, including assets under construction which will be reclassified to investment property upon completion, and assets held as land and buildings which are valued on a 'market value' basis. We recognise an inherent risk over the valuation of other land and buildings.

What will we do?

- Consider 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;
- Request our own valuation specialists undertake a review of higher risk valuations, including the valuations of the Cleveland Centre and Captain Cook Square;
- Sample test key asset information used by the valuers in performing their valuation (e.g. rental terms to support valuations based on rental income);
- 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 will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Our response to significant risks

Accounting for infrastructure assets

Financial statement impact

Misstatements that occur in relation to the risk of accounting for infrastructure assets could affect the property, plant and equipment account. Infrastructure assets had the following balance in the draft 2021/22 financial statements:

- Infrastructure assets: £134 million

What is the risk?

The Council's reporting framework requires that where an asset or component of an asset is replaced, the remaining value of the replaced asset or component is derecognised.

The Council's accounting records for infrastructure assets are not sufficiently detailed to allow identification of individual assets or components. Consequently the Council has not derecognised replaced infrastructure assets or components since the current reporting framework requirement were adopted in 2010. The Council is also unable to quantify the impact of not derecognising such assets or components on the financial statements.

Our audit report for 2020/21 will include a limitation of scope with regards to infrastructure assets as we were unable to determine whether a material misstatement of infrastructure assets existed.

The Council is not the only local authority which has not maintained sufficiently detailed records of infrastructure assets, and modifications to the Council's reporting framework are expected during the course of the audit to enable a 'reset' of infrastructure assets accounting by local authorities which will enable us to conclude on whether a material misstatement exists.

What will we do?

Our response to this risk will depend upon the precise nature of the changes to the Council's reporting framework which are still to be made, but are likely to include

- Reviewing management's assessment of how the revised reporting framework impacts the Council's financial statements, including any required financial statement disclosures or adjustments;
- Considering whether the Council is able to demonstrate material compliance with the revised reporting framework;
- Reviewing any revised financial statement balances or disclosures for consistency with the reporting framework; and
- Evaluating whether, under the revised framework, we are able to conclude on whether a material misstatement exists within the Council's financial statements.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Valuation of defined benefit pension liability The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. 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. Per the draft financial statements, the Council's net pension liability was £232 million at 31 March 2022. Accounting for this scheme 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 Council by the Council'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.	‣ Liaise with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. Note that the audit of the Pension Fund is also performed by EY; ‣ Assess the work of the Pension Fund actuary (Hymans Robertson), 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 considering any relevant reviews by our own EY actuarial specialists; ‣ Request our own pension specialists perform an independent roll-forward of the Council's pension liabilities from 31 March 2021 to 31 March 2022 and assess the consistency of that exercise with the Council's own valuation; and ‣ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

03 Value for money risks

Value for money risks

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

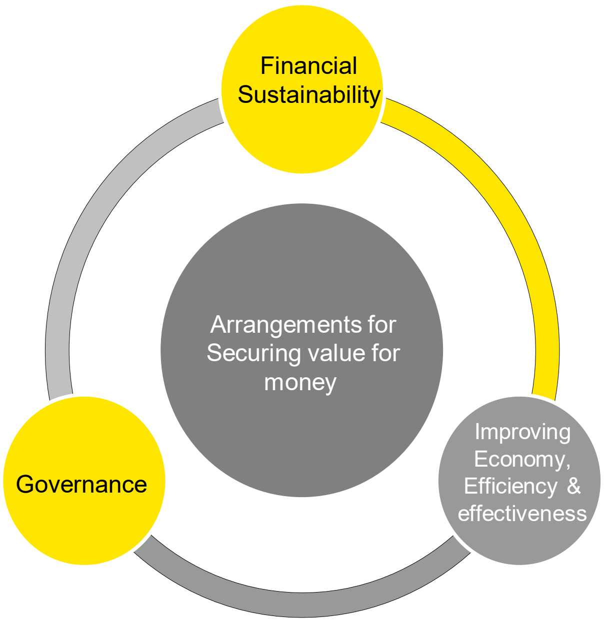
Auditor responsibilities

Under the Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, since the Code of Audit Practice was updated in 2020 there is no longer an overall evaluation criterion which we need to conclude on.

Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made, including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Corporate Affairs and Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required by the Code of Audit Practice to refer to this by exception in the audit report on the financial statements.

The Code of Audit Practice also states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the attention of the Council or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM work

As part of our 2020/21 audit, we reported significant weaknesses in the Council's arrangements to secure value for money during the year to 31 March 2021 arising from strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Whilst the Council is now taking steps to address these weaknesses, our reporting of them was delayed until July 2022 by the significance and complexity of these matters and the Council's Improvement Plan was not implemented until after the end of the 2021/22 financial year.

Our value for money assessment is primarily focused on the arrangements of the Council during the period under audit, however there is also a requirement under the Code of Audit Practice for auditors to report known significant weaknesses in a timely manner. Our value for money work will therefore consist of a combination of our assessment of the arrangements of the Council during the period under audit, 1 April 2021 to 31 March 2022, and the Council's response to the significant weaknesses and recommendations reported as part of the 2020/21 audit. We are still considering the impact of this multi-year circumstance on our auditor reporting.

Our response to risks of significant weaknesses in arrangements

Member and senior officer relationships	What is the risk?	What will we do?
	As part of our 2020/21 audit, we reported significant weaknesses in the Council's arrangements to secure value for money during the year to 31 March 2021 arising from strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. We observed that these strained relationships were a contributing factor in the respective roles and responsibilities of officers and members not being adhered to in the execution of Council policies and procedures. We reported that in our view, these were serious matters indicative of deep rooted cultural and relationship issues at the Council which required urgent action. Multiple stakeholders have highlighted further deterioration in relationships at the Council during 2021/22, including as highlighted in the final version of the Council's Annual Governance Statement 2020/21. The Council also had 5 of the 7 members of its Executive resign in May 2021 for reasons connected to these weaknesses. Whilst the Council is now taking steps to address these weaknesses, our reporting of them was delayed until July 2022 by the significance and complexity of these matters and the Council's Improvement Plan was not implemented until after the end of the 2021/22 financial year. There is therefore a significant risk that these matters continued to have an adverse impact on the effectiveness of the Council's governance processes during 2021/22.	▸ We discussed the relationships within the Council with stakeholders throughout 2021/22 as part of our 2020/21 audit work which was ongoing at the time. We will hold further discussions with management, and other stakeholders as appropriate, as part of our 2021/22 audit to confirm our understanding of these, and any impacts upon the Council's governance processes. ▸ Consider our own observation from direct interactions with officers and members, and from attendance at meetings of the Corporate Affairs and Audit Committee; ▸ Make enquiries of management, and review reports presented to full Council and the Improvement Board, to understand the Council's progress against the Improvement Plan; and ▸ Evaluate whether the above indicates that material weaknesses in arrangements were present during 2021/22, and consider the implications for our auditor reporting. In addition, we note that we continue to receive a high volume of correspondence with regards to the Council. Much of this correspondence is directly or indirectly linked to the significant weaknesses in arrangements we have previously reported. We consider such correspondence as information brought to our attention for the purposes of our value for money assessment and, where appropriate, design additional procedures to respond to any risks raised by our consideration of that information.

Our response to risks of significant weaknesses in arrangements

Provision of Children's Services	What is the risk?	What will we do?
	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. The appointed Commissioner for Children's Services in Middlesbrough issued a 12-month review of the Council's progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that "considerable progress has been made and there is evidence of real impact" and recommended that the Council be allowed to retain control of its Children's Services. The report did however note that the Council's Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children's Services can be considered as adequate in all regards. We also note that the Council's Children's Services directorate consistently overspends against its allocated budget, generating an overspend of £8.3 million (21% of its budget) for 2021/22 prior to application of flexible capital receipts. There therefore remains a risk that the Council did not have 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 2021/22. Given the significance of children's services to the Council's activities and the nature of the original conclusions reached by Ofsted, we consider it appropriate to recognise a significant value for money risk in respect of the delivery of children's services.	▸ Make enquiries of management to understand the further progress being made against the Council's Improvement Plan; ▸ Review the findings of any subsequent monitoring inspections of the Council's children's services as third party evidence of the progress being made by the Council; ▸ Enquire of management as to the reasons for recurring overspends within Children's Services and the steps taken by the Council to reduce and/or mitigate these; and ▸ Evaluate whether the above indicates that a material weakness in arrangements was present during 2021/22, and consider the implications for our auditor reporting.

04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2021/22 has been set at £6.9 million. This represents 1.5% of the gross expenditure on provision of services per the draft Statement of Accounts. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

We have decreased the threshold used for our materiality assessment from the 1.8% of gross expenditure on the provision of services used in the prior year due to the increased interest in the Council's Statement of Accounts as a result of the significant weaknesses in governance.

Gross expenditure on provision of services
£461m

Planning materiality
£6.9m

Performance materiality
£3.4m

Audit differences
£0.35m

Subsidiary performance materiality
£0.7m

Specific materiality
£1,000
Remuneration disclosures

Prior year materiality

£438m

£7.9m

£5.9m

£0.4m

We request that the Corporate Affairs and Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – The amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.4 million which represents 50% of Group materiality (rounded).

Audit difference threshold – This has been set as £0.35 million. We propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee, or are important from a qualitative perspective.

Subsidiary performance materiality – we determine component performance materiality as a percentage of Group performance materiality based on the risk and relative size to the Group of each component. We set performance materiality for the Council as a single entity at the same as Group performance materiality. We set performance materiality for Middlesbrough Development Company at £0.7m.

Specific materiality – We have set a materiality of £1,000 for reporting differences in remuneration disclosures which reflects our understanding of the interest of these areas to the users of the financial statements. We do not apply a specific lower materiality to the audit of related party transactions disclosures, however we do consider the materiality of transactions as they apply to both parties involved, rather than just to the Council.

05 Scope of our audit

Our Audit Process and Strategy

Objective and scope

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

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture and analyse the entirety of the Council's general ledger. These tools:

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Corporate Affairs and Audit Committee.

Internal audit

We will meet with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Group audit approach

The Middlesbrough Council group consist of two components, Middlesbrough Council and Middlesbrough Development Company.

We designate Middlesbrough Council as a full scope component, which means that we perform a full audit of this component. As our opinion covers the consolidated group financial information and the Council's single-entity financial information, we perform our procedures to a materiality level appropriate for the component as well as the group.

We designate Middlesbrough Development Company as a specific scope component, and focus our audit procedures on the component's non-current assets as the only balance within the component which is material to the group. Our approach to this component is to directly test material component balances ourselves and, as we are not the external auditor of Middlesbrough Development Company, we use a materiality level appropriate to our group opinion.

The Council did not produce group statements in the prior year, therefore we did not have a group audit approach in the prior year.

The significant risks identified in section 2 are applicable to the Council as a single-entity only, other than the presumed risk of misstatements due to fraud or error which is applicable to both components.

06 Audit team

Audit team

The engagement team is led by Stephen Reid, who will have responsibility for ensuring that our audit delivers high quality and value to the Council.

Mark Rutter will be the senior manager responsible for the day-to-day direction of audit work and is the key point for contact for the finance team.

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

Area	Specialists
Valuation of land and buildings	Align (management's valuation specialists) EY Real Estate valuation specialists (as auditor's specialists)
Pensions disclosures	Hymans Robertson (management's actuarial specialists) PWC (who undertake work in respect of management's specialists under a national programme overseen by the National Audit Office) EY Actuaries (as auditor's specialists)

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

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

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

Developing the right audit culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.

Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

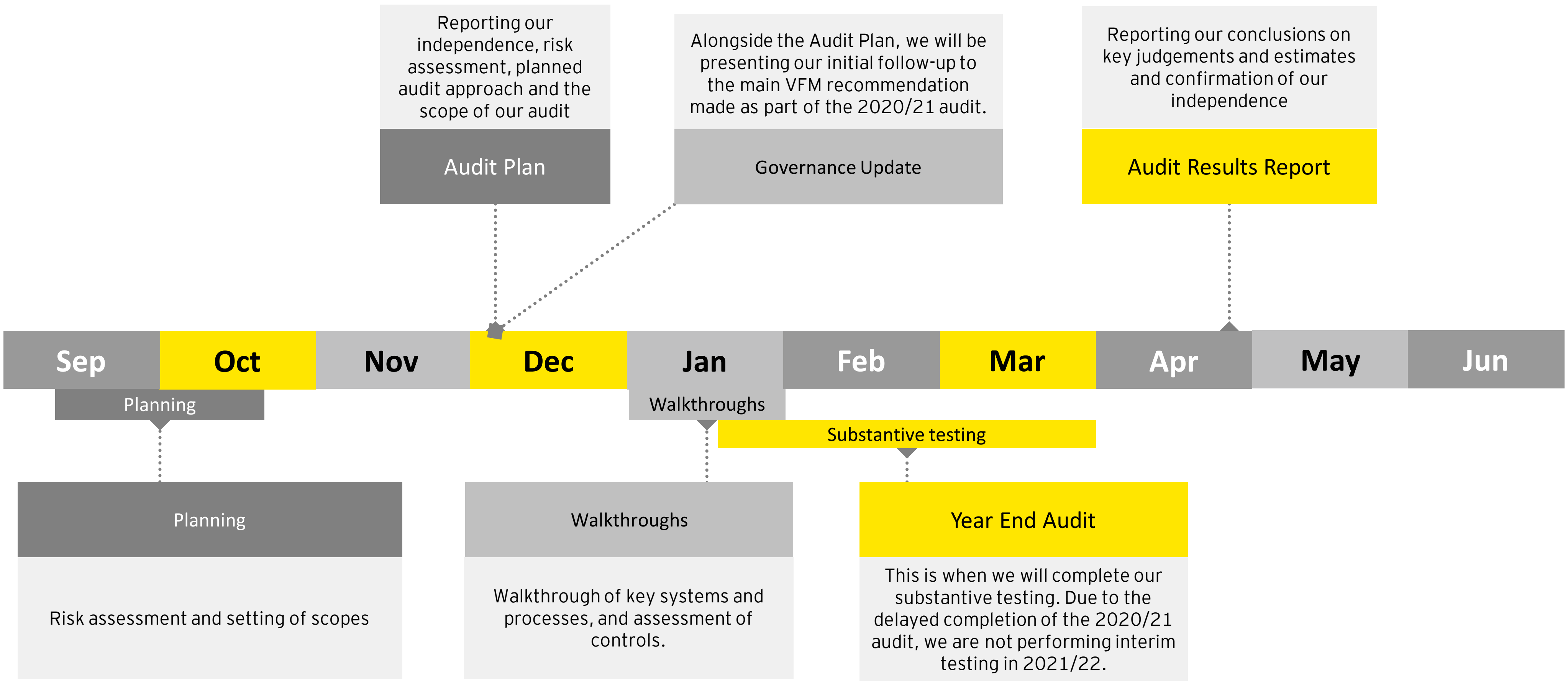
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Corporate Affairs and Audit Committee and we will discuss them with the Corporate Affairs and Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and processes within EY to maintain objectivity and independence; and ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in your Council. Examples include where we have an investment in related companies; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees, non-audit fees or business relationships and therefore no additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

Relationships, services and related threats and safeguards

EY Transparency Report 2022
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 1 July 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling Up, Housing and Communities. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Description	Planned Fee 2021/22 £	Scale Fee 2021/22 £	Estimated Requested Fee 2020/21 £	*Notes*
Base Audit Fee – Code Work (Council)	88,578	88,578	88,578	*1*
Base Audit Fee – Code Work (Pension Fund)	21,972	21,972	21,972	*1*
Changes in work required to address professional and regulatory requirements and scope associated with risk (Council)	102,312	N/A	81,850	*2, 3*
Changes in work required to address professional and regulatory requirements and scope associated with risk (Pension Fund)	49,199	N/A	39,359	*2, 3*
Revised Proposed Scale Fee	**262,061**	**110,550**	**231,759**	
IAS 19 Procedures – Code Work (Pension Fund)	9,250	N/A	8,500	*4*
Revised Proposed Scale Fee (inc. IAS 19 Procedures)	**271,311**	**110,550**	**240,259**	
Additional specific one-off considerations requiring additional work (Council)	TBC	N/A	148,000	*5, 6*
Additional specific one-off considerations requiring additional work (Pension Fund)	TBC	N/A	5,000	*5, 6*
Total Audit Fee	**TBC**	**110,550**	**393,259**	
Non-Audit Fee – Housing Benefit Certification Work	14,800	N/A	13,450	*7*
Non-Audit Fee – Teachers' Pension Certification Work	5,850	N/A	5,250	*7*
Total Fees	**TBC**	**110,550**	**411,959**	

All fees exclude VAT

Fees

Notes

1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) in March 2020 and applied to subsequent years.
2) 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. We have not been able to agree a scale fee variation with management and will therefore asked PSAA to make a determination as to the scale fee variation to be applied once our 2020/21 audit is concluded. The table on the previous page reflects the amount we intend to submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk.
3) We determine our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk in reference to hourly rates set by PSAA. PSAA have increased these rates by 25% since we determined the amounts for our 2020/21 audit.
4) As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies.
5) Where we identified significant risks and other areas of audit focus as part of our 2020/21 audits, as reported to the Corporate Affairs and Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. For 2020/21, this included an exceptional level of audit effort to address the additional risk of significant weakness relating to member and senior officer relationships reported in the 2020/21 Audit Results Report which, due to its nature, has had to be performed by the most senior members of the audit team. Audit resources have also been required to respond to a very high level of correspondence we received during the course of the 2020/21 audit. The amounts of £148,000 for the Council and £5,000 for the Pension Fund represents our current estimate of the additional fees we have determined as commensurate with the additional work undertaken, however until our 2020/21 audits are concluded further procedures may be required.
6) We note that there continue to be factors which increase the extent of our audit procedures over and above the levels envisaged by PSAA when determining scale fees. For 2021/22, this will include the production of group accounts consolidating Middlesbrough Development Company, the increasing complexity of the Council's property portfolio, changes made in the NAO's revised 2020 Code of Audit Practice and the implications of the revised Code for our value for money work and the adoption of a new auditing standard *ISA 540: Auditing Accounting Estimates and Related Disclosures* which requires us to perform addition work around accounting estimates. Significant audit effort is also likely to be necessary to respond to the significant value for money risks reported in section 3 and the high levels of correspondence we are continuing to receive in relation to our audit. We will discuss the impact of these factors on our audit fees with management once the full extent of additional effort has been determined.
7) Our fees for the 2021/22 certification work are still to be agreed with management. The amounts presented are our initial estimate based on the work involved.

The fees presented are based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- No material weaknesses in arrangements for us to report on;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee.

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

Required communications with the Corporate Affairs and Audit Committee

We have detailed below the communications that we must provide to the Corporate Affairs and Audit Committee.

		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	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 (this report)
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 (April 2023)

Required communications with the Corporate Affairs and Audit Committee

		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 (April 2023)
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 (April 2023)
Fraud	• Enquiries of the Corporate Affairs and 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 (April 2023)
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 (April 2023)

Required communications with the Corporate Affairs and Audit Committee

Required communications	What is reported?	Our Reporting to you 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 (this report); and Audit Results Report (April 2023)
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 (April 2023)
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 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.	Audit Results Report (April 2023)
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report (April 2023); and Management Letter (May 2023)

Appendix B

Required communications with the Corporate Affairs and Audit Committee

Required communications	What is reported?	Our Reporting to you When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (April 2023)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (April 2023)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (April 2023)
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 (this report); and Audit Results Report (April 2023)
Group audits	• An overview of the type of work to be performed on the financial information of the components; • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components; • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work; • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted; • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Planning Report (this report); and Audit Results Report (April 2023)

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control; • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management; • Concluding on the appropriateness of management's use of the going concern basis of accounting; • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; • Reading other information contained in the financial statements, the Corporate Affairs and Audit Committee reporting appropriately addresses matters communicated by us to the Corporate Affairs and Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information

Purpose and evaluation of materiality
For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the level of work performed on individual account balances and financial statement disclosures. The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world
over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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