

Melton Borough Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

9 September 2016

Ernst & Young LLP



Building a better
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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 Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Melton Borough Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix E:</p> <ul style="list-style-type: none"> • Completion of subsequent events review • Receipt of signed management representation letter • IAS19 Protocol procedures (awaiting information from auditors of Leicestershire County Council pension scheme) • Completion of procedures with respect to the Collection Fund • Completion of procedures with respect to the Housing Revenue Account • Final partner review of the audit file <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We are completing the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We currently have no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Objections	<p>We have received no objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>Management have corrected two audit adjustments noted during the course of our procedures. These are detailed in appendix A.</p> <p>There remains one unadjusted audit differences in respect to the revaluation reserve which is detailed in appendix B.</p>
Scope and materiality	<p>In our audit plan presented at the 1 February 2016 Governance Committee meeting, we committed to communicating our materiality level to you. Our audit procedures would be performed using a materiality of £537,000. We have assessed this based on the actual</p>

results for the financial year.

The threshold for reporting audit differences which impact the financial statements has been set at £27,000. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include:

- Remuneration disclosures including members allowances, any severance payments, exit packages and termination benefits: We have reviewed all members included in the members allowances disclosure and sample tested allowances. We agreed amounts disclosed in the financial statements as Officer's Remuneration back to supporting payroll records.
- Related party transactions. We have tested all amounts disclosed in the financial statements back to signed declarations of interest.

We carried out our work in accordance with our Audit Plan.

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- Valuation of property, plant and equipment
- Risk of fraud in revenue and expenditure recognition
- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

Other reporting issues

We have no other matters we wish to report.

Control observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Through the audit of housing stock valuations we have recommended that the council records and tracks its Housing Revenue Account (HRA) property valuations on an individual property basis to comply with paragraph 4.1.2.33 – 36 of the Code.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Stephen Clark

Partner
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

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

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Valuation of Property, Plant & Equipment Property, plant and equipment is the largest balance on the Council's balance sheet and valuation of the balance is based on assumptions and judgement.</p> <p>External audits performed in previous years have highlighted valuation errors and internal control weaknesses which lead us to consider there to be an increased risk that this balance could contain a material misstatement.</p>	<ul style="list-style-type: none"> · Reviewed the basis of asset revaluations undertaken and in doing so consider: <ul style="list-style-type: none"> ○ the judgements, assumptions and data used; ○ the reasonableness of estimation techniques applied; and ○ the expertise of your valuation experts (both internal and external). · Reviewed the accounting entries made to recognise the valuation changes in the accounts. · Made use of our valuation experts as appropriate. 	<p>Subsequent to the issuance of our Audit Plan, the Council took the decision to engage the services of an external valuer, Innes England, to assist in valuing the PPE portfolio. We have been able to place reliance on the work of Innes England as management's expert and have found no issues with the valuation of assets.</p> <p>Our work did identify an issue with respect to the Council's record keeping for the Housing stock. Revaluation records have not been maintained on an individual asset basis. This is a requirement of the Code of Audit Practice 2015/16 paragraphs 4.1.2.33 – 36. The impact of not doing this is that the Council is unable to ascertain when charges should be made against the Comprehensive Income and Expenditure Statement (CIES) in the case of a downward revaluation or impairment. We have performed procedures to estimate the extent to which this would impact the Council's CIES. This has been noted as an unadjusted audit difference in Appendix B to this report. In addition, we have raised a control observation with respect to this matter.</p> <p>Additionally, our work has identified that the Council had attempted to correct inappropriate depreciation charges in prior years by depreciating the net book value of assets against its remaining useful lives. This results in several assets not complying with the published depreciation policy. Management have posted an adjustment to the accounts (refer Appendix A) to correct this error by writing off all incorrect depreciation in the current year. This complies with the policy and allows for the appropriate depreciation charge going forward.</p> <p>We have noted that the land element of all community assets has been valued at a nominal £5000. This conflicts with the published accounting policy which states historical cost or existing use value has been applied. As a result management have amended the published accounting policy to be more specific as to the valuation approach taken. We have sought specific management representation as to the appropriateness of the nominal value being applied.</p> <p>No further issues were noted.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For Melton Borough Council we consider that this risk presents itself in</p> <ul style="list-style-type: none"> · the risk of inappropriate capitalisation of revenue expenditure · the determination of accounting estimates · the posting of manual journals to the general ledger 	<ul style="list-style-type: none"> · Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements · Reviewing accounting estimates for evidence of management bias (for example, pension scheme assumptions, valuation and impairment assumptions) · Evaluating the business rationale for significant unusual transactions · Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<p>No issues were noted as a result of our work.</p>
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <ul style="list-style-type: none"> · For Melton Borough Council we consider that this risk presents itself in the fees, charges and other service income. <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <ul style="list-style-type: none"> · For Melton Borough Council we consider that this risk presents itself in 'other service expenses' 	<ul style="list-style-type: none"> · Review and test revenue and expenditure recognition policies · Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias · Develop a testing strategy to test material revenue and expenditure streams · Perform unrecorded liabilities testing · Review and test revenue and expenditure cut-off at the period end date to ensure transactions have been recorded in the appropriate accounting period 	<p>When obtaining the data population for performing our sample testing on 'other service expenses' management alerted us to a misclassification between income and expenditure. This has been adjusted for in the segmental reporting analysis in note 24. The amendments were made up of changes from one expenditure category to another (therefore not affecting the balance sheet or CIES) and £389,000 on General Fund Services reporting to the Policy, Finance and Administration Committee (PFA) which impacted the CIES (not the balance sheet) by reducing the income and expenditure. There was no impact on the net position.</p> <p>No further issues were noted as a result of our work.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Pensions liability</p> <p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.</p> <p>The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.</p>	<ul style="list-style-type: none"> · Reviewed the output of the report from the Council's actuary · Reviewed the assumptions used by the actuary to determine whether they are in our expected range · Tested the journal entries for the pensions transactions to check that they have been accurately processed in the accounts 	<p>No issues were noted as a result of our work, however at the time of writing we are awaiting confirmation from the auditors of Leicestershire County Council Pension Scheme on the assurances they are required to provide us with.</p>

Other matters to bring to your attention

We noted the following issues as part of our audit.

Key findings

National Non-Domestic Rates (NDR) Appeals provision:

To arrive at this estimate, the Council uses Analyse LOCAL (developed by Inform CPI Ltd) which has been used by a large number of local authorities (including a number of other, local councils) to assist in the estimation of the likely outcome for each outstanding appeal as at the 31 March 2016. The Analyse LOCAL software uses up to date outstanding appeals information from the Valuation Office Agency and based on the type of appeal, geographical location and other relevant factors, produces an outcome analysis for each appeal.

Consistent with prior years, the Council has chosen not to provide for appeals which Analyse LOCAL have assessed as 'likely to be withdrawn'. These appeals total £369,659.

We have performed a completeness check of the data used by Analyse LOCAL by way of extracting a sample of the highest value RVs in the Melton area from VOA and ensuring these are included within the Analyse Local Report where an appeal has been lodged (or if not on the Analyse Local Report, we confirm it is correct to exclude it). Additionally, for a sample of the largest appeals included on the Analyse LOCAL report, we have performed reasonableness testing of the amounts included in the provision calculation based upon latest information available from the VOA.

Our work has not identified any material misstatements with respect to the provision for NDR appeals.

Restatement of 2014-15 balances

The draft unaudited statement of accounts included several comparative year (2014-15) balances which had been restated. On discussion with management it was agreed that these amounts were in the main not material to the user of the accounts and therefore did not meet the requirements of accounting standards to have the prior year figures adjusted.

In the audited statement of accounts, these 2014-15 restatements have therefore been reversed with the following exception:

Note 31 – Grant Income

The 2014/15 figures have been restated to include a wider range of income codes relating to grants received and credited to services, which were previously omitted from this note. The 2015/16 figures have been completed on this basis and thus the re-statement ensures comparability.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

Control themes and observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Description	Impact	Recommendation	Management response and target completion date
The Council do not track asset by asset revaluation movements in valuations of individual HRA properties to enable the remaining balance of revaluation reserve to be observed on an asset by asset basis.	The Council is unable to demonstrate that they have accounted for revaluations in compliance with the accounting standards.	An exercise be undertaken to split the revaluation reserve by property to enable yearly upward/downward revaluations to be appropriately recognised in accordance with the Code of Audit Practice, and that this analysis be maintained going forward.	This will involve significant additional work to achieve this and therefore Management will take further professional advice and following receipt of this continue to discuss and work with the auditors to find a solution.

We have reviewed both the Narrative Statement and the Annual Governance Statement and made several minor observations which management have taken on-board and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. In addition to the standard representations, we have requested the following specific representations:

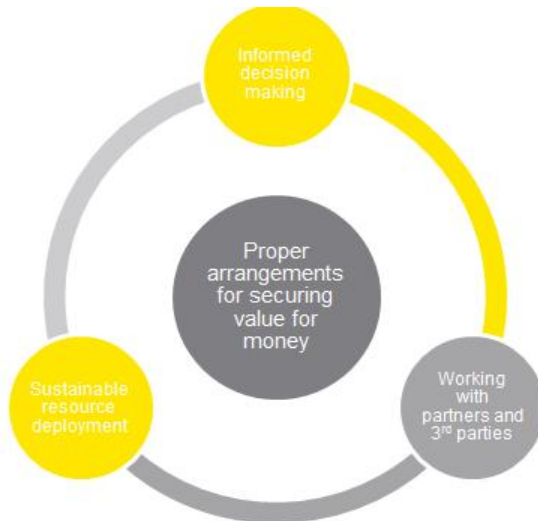
- National Non-Domestic Rates appeals provision
 - The management judgement to exclude appeals which ANALYSE Local consider to be 'likely to be withdrawn' makes a material difference to the value of the provision recorded in the financial statements.
- Hymans Robertson
 - Management's reliance on the use of Hymans Robertson as an expert when determining the fair value of the pension scheme assets and liabilities is a significant area of estimation uncertainty in the financial statements.
- Innes England
 - Management's reliance on the use of Innes England as an expert when determining the fair value of the Council's property, plant and equipment is a significant area of estimation uncertainty in the financial statements.
- Valuation of the land element of community assets
 - We believe that the assumptions we used in valuing the land element of Community Assets at a nominal value of £5000 is appropriate and does not create a material misstatement in the financial statements.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

4. 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. This is known as our value for money conclusion.

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.

Overall conclusion

We did not identify any significant risks in relation to these criteria.

We have reviewed the Council's Medium Term Financial Strategy and the processes in place at the Authority to monitor and manage savings and efficiency plans.

The Council has a strong track record of achieving savings and efficiency targets and out performing its budget.

The quality and quantity of reporting of financial performance information to the PF&A Committee and full Council is sufficient to enable informed decisions to be taken.

The Council, and its public and third sector partners work as a single team through co-location in one building – Parkside. In this way Melton is somewhat unique in its innovative and progressive approach to working with partners and other third parties.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Corrected audit differences

The following corrected differences, which are greater than £27,000, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £[000]	Comprehensive income and expenditure statement (Decrease) / Increase £[000]
PFA General – Other Service Cost		(389)
PFA General – Fees and Charges		389
This adjustment is to correct an overstatement of income and expenditure to a support account resulting in no change to the net position reported in the Comprehensive Income and Expenditure Account		
Depreciation	(27)	
Services		26
Capital Adjustment Account	28	
Revaluation reserve	(1)	
MIRS	(26)	
Adjustment to correct the depreciation charge and bring it in line with the published policy.		
Cumulative effect of unadjusted differences	(26)	26

Appendix B – Uncorrected audit differences

The following difference, which is greater than £27,000, has been identified during the course of our audit and have not been considered material by management or by us for adjustment. We are bringing them to the Committee's attention to enable you to form your own view on this item.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
Revaluation Reserve	130	
Other Operating Expenditure		(130)
<p>Based on available records, the estimated amount that had asset by asset revaluation records been maintained would have been charged to the Comprehensive Income and Expenditure statement where revaluation losses exceed (on a property by property basis) the revaluation gains accumulated in the revaluation reserve.</p>		
Cumulative effect of unadjusted differences	130	(130)

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 January 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 you 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 Governance Committee on 20 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 21 January 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	43,169	43,169	-
Certification of claims and returns	14,729	14,729	-

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Draft audit report

Independent auditor's report to the members of Melton Borough Council

Opinion on the Melton Borough Council financial statements

We have audited the financial statements of Melton Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and the related notes 1 to 40
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 16, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Head of Central Services and auditor

As explained more fully in the Statement of the Head of Central Services' Responsibilities set out on page 2, the Head of Central Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Central Services, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Melton Borough Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Conclusion on Melton Borough Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

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

Auditor’s responsibilities

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Melton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Melton Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Melton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

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

Signature

Stephen Clark (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Birmingham

Date

Appendix F – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
One Colmore Square
Birmingham
B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Melton Borough Council ("the Council") for the year ended 31 March 2016. 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 Council financial position of Melton Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 2015/16.
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 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

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 this difference identified by and brought to our attention by the auditor because we do not believe that it is material.

B. Fraud

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

2. 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.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. 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 are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council, Policy, Finance and administration committee and the Governance committee held through the June 2015 to the most recent meeting on the following date: *7 September 2016*.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period

ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

6. We believe that the assumptions we used in valuing the land element of Community Assets at a nominal value of £5000 is appropriate and does not create a material misstatement in the financial statements.

7. 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.

E. Liabilities and Contingencies

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

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

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

F. Subsequent Events

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

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

H. Reserves

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

I. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

1. Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
2. Matters referred to in the letters issued to you by the Council's Monitoring Officer and the Council's legal advisor.

J. Purchase and Sales Commitments and Sales Terms

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.
2. At the period end, the Council had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Council (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.).

We have provided you with all agreements regarding sales to distributors and resellers. These agreements represent the entire arrangements and are not supplemented by other agreements either written or oral.

K. Use of the Work of a Specialist

When the Council has used the work of a specialist, we may include the following representation:

1. We agree with the findings of the specialists

H Hymans Robertson	Fair value of the pension scheme assets and liabilities
ANALYSE Local	Value of the provision for National Non-Domestic Rates appeals
Innes England	Fair value of the Council's property, plant and equipment

We 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.

L. National Non-Domestic Rates appeals provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the National Non-Domestic Rates (NNDR) appeals provision have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the significant assumptions used in making the National Non-Domestic Rates appeals provision appropriately reflect our expectation of the likely financial exposure from NNDR appeals.
3. We confirm that the disclosures made in the financial statements with respect to the NNDR appeals provision are complete and made in accordance with the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
4. We confirm that no adjustments are required to the NNDR appeals provision and disclosures in the financial statements due to subsequent events.

M. Retirement benefits

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,

Head of Central Services

Chair of the Governance Committee

Appendix G – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Melton Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ 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 ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have not matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the 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 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Letter/Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

EY | Assurance | Tax | Transactions | Advisory

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