

# Melton Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Melton Borough Council following completion of our audit procedures for the year ended 31 March 2017. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 19 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 19 September 2017.

In February 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Stephen Clark

Partner  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 19 September 2017 Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 07 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

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

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

# Financial Statement Audit



## Financial Statement Audit

### Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 19 September 2017.

Our detailed findings were reported to the 19 September 2017 Governance Committee.

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

Significant Risk	Conclusion
<p>Revenue and expenditure 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"><li>For Melton Borough Council we consider that this risk presents itself in the fees, charges and other service income.</li></ul>	<p>Our testing has not identified any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>
<p>In this 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 manipulating expenditure recognition.</p> <ul style="list-style-type: none"><li>For Melton Borough Council we consider that this risk presents itself in 'other service expenses'</li></ul>	

Significant Risk	Conclusion
<p>Management override of controls</p> <p>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 to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgments being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council 's normal course of business</p>
<p>Valuation of property, plant and equipment</p> <p>In 2016/17 the Authority is using the services of District Valuer and Innes England, both RICS qualified Valuers to undertake a revaluation exercise on land and buildings (both HRA and General fund) as at 31 March 2017. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an audit risk for 2016/17</p>	<p>The Council's PPE is valued by the District Valuation Office (DVO) and Innes England. We have reviewed:</p> <ul style="list-style-type: none"> <li>• the instructions and data provided to the valuer by the Council.</li> <li>• the classification and valuation methods used and identified no issues.</li> </ul> <p>We have obtained input from EY's own valuation experts to review the central assurances received from Gerald Eve on the work of the DVO and their qualifications. We have followed up all recommendations and have no issues to report.</p>
<p>Revaluation reserve</p> <p>In our 2015/16 audit results report we reported an issue with respect to the Council's record keeping for the Housing stock. The Revaluation records are not maintained on an individual asset basis. This is a requirement of the Code of Audit Practice. 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. There is also a risk the council is not able to ascertain previous impairments charged to the CIES for HRA assets and whether previous impairments should be reversed as a result increases in value to the HRA assets.</p>	<p>Review of the accounting entries, for the valuation of HRA assets identified the Council's revaluation reserve and capital adjustment account had been overstated by £27m, the in year effect to the CIES was £17.2m, the remainder effecting prior years as explained at Note 38 of the updated accounts prior to publication.</p> <p>We have reviewed the resultant prior period adjustment made to the accounts and no further issues noted. There is no impact on the council's general fund balance.</p> <p>We recommended the Council carries out an exercise 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.</p>

Other Risk	Conclusion
<p>Financial statements presentation</p> <p>Expenditure and funding analysis and Comprehensive income and expenditure statement</p> <p>Amendments have been made to the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i> (the code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '<i>Telling the Story</i>' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.</p> <p>The presentation changes and requirement for restatement result in increased risk of error.</p>	<p>Subject to presentational changes identified during the audit which have been corrected by management the Council has presented the CIES and expenditure and funding analysis in line with Code guidance.</p> <p>We have no further findings to report.</p>

Other Risk	Conclusion
<p>Accounting for Pension 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>	<p>Based on completion of the specified procedures we have identified:</p> <ol style="list-style-type: none"> <li>1) The auditors of the Leicestershire Pension Fund identified an error over the valuation of the investments held within the pension fund, the impact of the error is to increase the asset values used for the valuation of Melton Borough Council pension liability as at 31 March 2017 by £51k.</li> <li>2) The pension cost was understated by £34k. The impact of the error is to increase the pension liability.</li> </ol> <p>The overall impact on the accounts is to reduce the pension liability by £17k. There is no impact on the council's general fund balance.</p> <p>Our internal expert has confirmed that the assumptions used by the actuary are consistent with their expectations and within acceptable ranges.</p>

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

## Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £604K (2016: £582k), which is 2% of gross expenditure reported in the accounts.</p> <p>We consider 2% of gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £30K (2016: £29K)</p>

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 any severance payments, exit packages and termination benefits: For these areas we have set materiality as £1k or to the extent and error may change relevant reported bandings.
- Related party transactions: For any errors identified, we have considered the concept of the materiality of transactions and balances as would be relevant to the related individual or organisation.
- Audit fees. A materiality of £1k has been applied.
- Members' allowances. A materiality of £1k has been applied.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

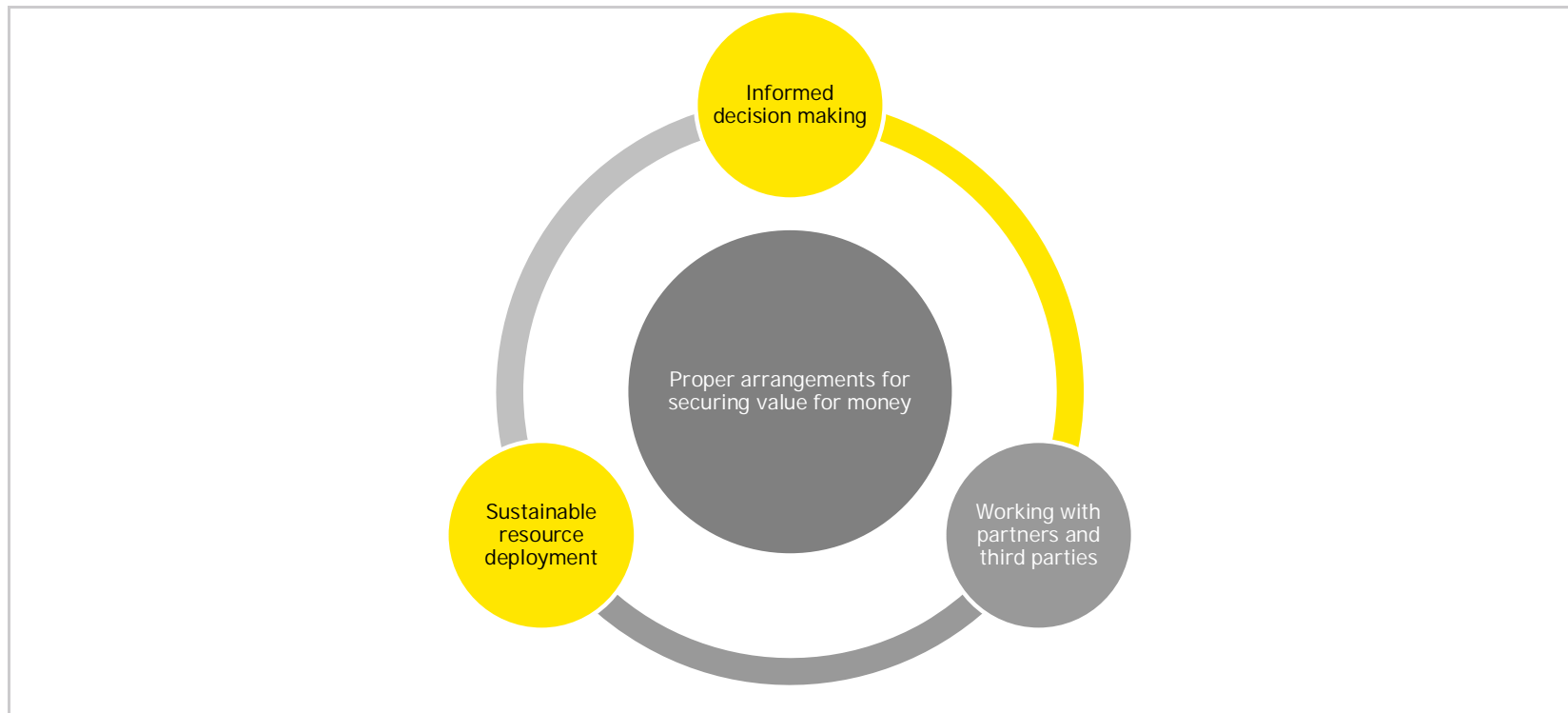
Value for Money

## 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.



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

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 19 September 2017.



Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

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

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

### Report in the Public Interest

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

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

### Written Recommendations

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

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

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

### Other Powers and Duties

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

## Independence

We communicated our assessment of independence in our Audit Results Report to the Governance Committee on 19 September 2017. 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 regulatory and professional requirements.

## Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We wish to report the following matters:

Control observation	Management response
<p>We identified as part of calculating the bad debt provisions, the council used set percentages to calculate the provision, the rates used were set in prior years and no evidence available that any review has been carried out over its reasonableness, therefore we recommend the process is reviewed to ensure the bad debt provision rates are reviewed and based on the council's experience of actual collection rates.</p>	<p>The Council reviews the percentages used for the bad debt provisions on an annual basis, taking into account factors such as collection rates, repayment agreements and the move to Universal Credit. We are happy to work with external audit to further review these estimates.</p>
<p>We identified as part of calculating the business rates appeal provision, the calculation method used was not consistent with our expectations. There was no provision made for appeals with alteration dates of 2018/19 or 2019/20. The appeals with alteration dates were all given a 100% provision rather than being based on experience of success rates. A provision was also made in relation to potential 2017 listing appeals for which there is no obligation as at 31/03/2017, we recommend the Council reviews the process of calculating the business rates appeal provision, ensuring the provision is based on obligation as at 31/03/2017 and estimated success rates of appeals.</p>	<p>We have agreed to review this opinion on the provision for next year as more information becomes available. We are comfortable that the estimates used this year are adequate for the purpose.</p>
<p>We identified the revaluation records for HRA assets are not maintained on an individual asset basis, which lead to a £27m adjustment and prior period adjustment in 2016/17. We recommended the Council carries out an exercise 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.</p>	<p>We have previously agreed to consider splitting the revaluation reserve by beacon categories. We are in the process of talking to external valuers to enable this going forward.</p>

Appendix A

## Audit Fees



## Appendix A Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	£50,169	£43,169	£43,169

For 2016/17, subject to PSAA approval, we have agreed additional fee of £5k in relation to additional work carried out over the revaluation reserve prior period adjustment, change in valuer, and the procedures to audit the CIES restatement, and a fee of £2k in relation to difficulties in timely completion of our audit work.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.



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ED None

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