Melton Borough Council
Audit results report

Year ended 31 March 2018

July 2018

Building a better working world

Private and Confidential

10 July 2018

Dear Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Melton Borough Council for 2017/18. We will issue our final report at the Governance Committee meeting scheduled for 24 July 2018.

We have substantially completed our audit of Melton Borough Council for the year ended 31 March 2018.
Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 24 July 2018.

Yours faithfully

Stephen Clark

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money

06 Other reporting issues

07 Assessment of Control Environment

08 Independence

09 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 February 2017)" 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 Governance Committee and management of Melton Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Melton Borough 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 Governance Committee and management of Melton Borough 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 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 6 February 2018 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality. In our Governance Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £0.605m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £0.571m. This results in updated performance materiality, at 75% of overall materiality, of £0.428m, and an updated threshold for reporting misstatements of £0.029m.

Executive Summary

Status of the audit

We have substantially completed our audit of Melton Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Conclude on the pensions disclosures on receipt of letter of assurance from KPMG
- Completion of Subsequent event review procedures
- Receipt of a signed letter of management representation
- Final review of the Narrative Report and financial statements
- Submission of the whole of government account assurance statement.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We identified one unadjusted audit difference in the draft financial statements, an understatement of £0.147m in relation to the pension scheme asset valuation used by the scheme actuary, which management has chosen not to adjust, further detail can be found on page 15, in Section 2 Areas of Audit Focus.

We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. There is no impact on the comprehensive income and expenditure statement or general fund, as a result of the unadjusted audit difference. We agree with management's assessment that the impact is not material.

We have also identified audit differences which have been adjusted by management. The differences identified were either classification errors or disclosure matters and have no impact on the overall reported financial position. The detail of these can be found in Section 4 Audit Differences.

Executive Summary

Areas of audit focus

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

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

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

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

Executive Summary

Control observations

Our audit was not designed to express an opinion on the effectiveness of internal control and as we have adopted a fully substantive approach, we have therefore not tested the operation of controls. As a result of the work undertaken we have identified some deficiencies in internal control as follows:

- Our review of key contracts has identified a number of significant contracts/leases (eg BIFFA waste management). which were not included on the contracts registers. The council has agreed the contact register will be refreshed, removing old contracts and updating to include all contracts. The contract register will also be periodically circulated to directors, to confirm the contract register remains accurate.
- We highlighted in 2016/17, the council uses set percentages to calculate the bad debt provision, the rates being used were set in prior years and no evidence was available that any review has been carried out over its reasonableness. For 2017/18 the council has updated the bad debt provision calculation for business rates and council tax, these are now based on the council's experience of collection rates, the process for calculating the bad debts on other debts is being reviewed to ensure the bad debt provision is based on the council's experience of actual collection rates.

Further details provided at section 7

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified one significant risk over sustainable resource deployment:

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5Value for Money

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

We have no matters to highlight on Independence.

02 Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The risks we have identified are most focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals and provisions

What did we do?

- Tested the valuation of accruals (income and expenditure) and testing provisions completeness and valuation at the year-end as these are the areas most susceptible to manipulation by management to achieve the desired expenditure levels;
- Tested the completeness of liabilities and income and expenditure cut off to gain assurance that there has been no material amounts of expenditure omitted from the financial statements;
- Tested the existence and valuation of debtors and accrued income; and
- Completed Journal entry testing within specific parameters

What are our conclusions?

- Our testing has not identified any material misstatements from revenue and expenditure recognition.
- Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Significant Risk

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK 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.

What did we do?

- Recalculated the Capital Financing Requirement and confirmed that it is compliant with the requirements of the Code. In addition we confirmed that the disclosure is internally consistent with the PPE and Intangible Assets;
- Checked that MRP is appropriately calculated using the method outlined in the prudential code, with specific attention to any MRP on unsupported borrowing;
- Reviewed capitalised expenditure to confirm that it met the criteria for this treatment;
- Reviewed REFCUS expenditure to ensure that it met the broad principle of allowable expenditure, or was incurred under direction from the secretary of state;
- Obtained a schedule of movements on the HRA reserve, and agreed consistency to other statements and disclosures;
- Reviewed accounting policies, identifying whether consistent with prior year and the Code of practice;
- Reviewed Movement in Reserves and Adjustment between accounting and funding basis and ensure that entries are both appropriate for the entity and consistent with elsewhere in the statements; and
- Completed journal entry testing within specific parameters

What are our conclusions?

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

Significant Risk

Significant risk

Valuation of land and buildings (HRA)

What is the risk?

Land and buildings (HRA) is the most significant balance in the Council's Statement of Financial Position. The valuation of land and buildings (HRA) is subject to a number of assumptions and judgements and even a small movement in these assumptions, could have a material impact on the accounts.
For 2017/18 the Council has procured the services of Innes England, this is a change from 2016/17, where the District Valuation Services were used.
The Council has also instructed Innes England to value the land and buildings within the Housing Revenue Account using the Beacon approach. This is a change to the valuation methodology to make it consistent with the Code of Practice following an audit recommendation in prior year.
The change in valuation methodology and valuer increases our risk over the valuation of the HRA assets.

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial **statements**

What are our conclusions?

- The Council's PPE is valued by Innes England
- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used and identified no issues.
- We have obtained input from EY's own valuation experts to review the work of Innes England and their qualifications.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

Significant Risk

Other financial statment risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial **statements**

What are our conclusions?

- The Council's PPE is valued by Innes England
- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used and identified no issues.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

Other financial statment risk

Pension Liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Leicestershire County 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. At 31 March 2017 this totalled £18 million.
The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Liaised with the auditors of Leicestershire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Melton Borough Council;
- Assessed 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19

What are our conclusions?

- Our work is incomplete in this regard as we are yet to receive assurances from the Leicestershire Pension Scheme Auditor. However our testing to date has not identified any material misstatements of the Authority's liability or related disclosures in this regard.
- We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Hymans Robertson LLP.
- EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. We did note that the investment values as at 31 March 2018, used by the actuary was 0.41% lower than actual values held by the pension fund, the variance is within an acceptable range for the estimation technique used, however the impact to the council pension liability to over state the pension liability by £0.147m, and the accounts have not been adjusted for this, see section 4 for further details.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Melton Borough COUNCIL

Opinion

We have audited the financial statements of Melton Borough Council for the year ended 31 March 2018 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,
- the related notes 1 to 41,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 14
- 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Melton Borough Council as at 31 March 2018 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 2017/18.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Statement of Accounts [set out on pages], other than the financial statements and our auditor's report thereon. The Director for Corporate Services is responsible for the other information.

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

Our opinion on the financial statements

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, 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 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Director for Corporate Services

As explained more fully in the Statement of the Director for Corporate Services's Responsibilities set out on pages [...], the Director for Corporate 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 2017/18, and for being satisfied that they give a true and fair view.

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

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.

Audit Report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the 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 the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

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.

Use of our report

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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Clark
Ernst & Young LLP (Local Auditor), Birmingham
xx July 2018

04 Audit Differences

Audit Differences

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

Summary of adjusted differences

We identified audit differences which have been adjusted by management. The differences identified were either classification errors or disclosure matters and have no impact on the overall reported financial position. The adjustments above our reporting threshold are:

1) The non ring-fenced grants totalling £0.812m were not analysed at Note 8, Taxation and non specific grant income.
2) The disclosure of officer remuneration (Note 11) included employee pension contributions of £0.036m instead of employer pension contributions of £0.084m, understating the total by £0.048m
3) The member allowances (Note 10) incorrectly excluded Mayor and Deputy Mayor allowances, understating the note by £0.007m

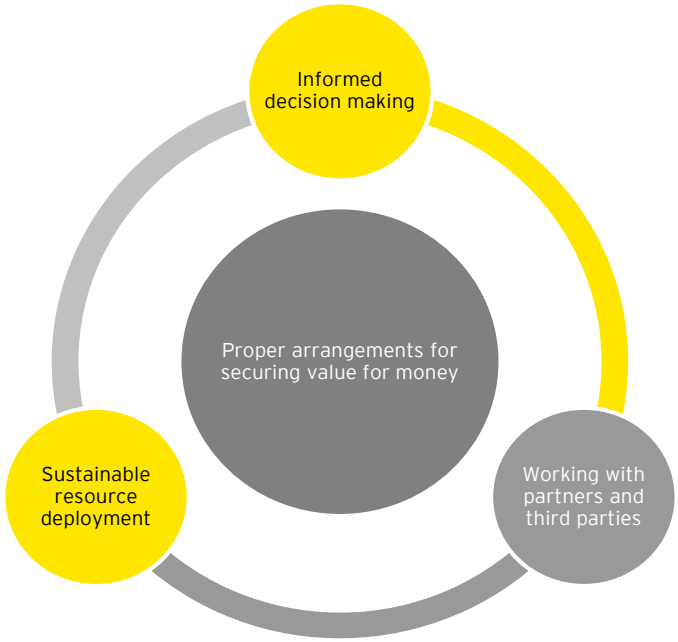
Summary of unadjusted differences

In addition we highlight the following misstatement to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Governance Committee** and provided within the Letter of Representation:

As highlighted at section 2 of our report, our work on the pension liability 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 2018 by £0.147m, the impact on the accounts is to reduce the overall the pension liability and amount charged to the pension reserve by the same amount.

05 Value for Money Risks

Value for Money



Background

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

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified 1 significant risk around these arrangements and present our findings of our resultant work on page 24.

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

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Council's Medium Term Financial Strategy (MTFS) shows in the short term there is a gap between funding and expenditure. The MTFS for the period 2018/19 to 2021/22 shows a shortfall from 2018/19 reversing to a surplus by 2021/22. Specifically, there is a significant risk over the Councils financial resilience that manifests itself through a significant gap in the financial plan for 2018/19 putting at risk the achievement of statutory financial performance in 2018/19. We acknowledge that the financial position shown in the MTFS will be updated when the 2018/19 budget is approved, which will include confirmation of the Council's final financial settlement, and savings plans developed through the Budget Management Strategy to meet the future financial challenges, which will reduce the short term gap identified.	Deploy resources in a sustainable manner	We have reviewed the arrangements in place at the council, and plans in place to address the shortfall identified, and note: ▸ The 2017/18 performance was a £0.284m deficit against a budgeted deficit of £0.225m, we acknowledge the approved deficit was updated to £0.544m in year, and the performance reflects an improvement of £0.260m, against the final approved deficit budget of £0.544m. ▸ The Council has clearly identified and understood the areas of under / over spend, and continues to have a good track record of budget monitoring. ▸ A contribution of £0.156m is required from the general fund to balance the 2018/19 financial year budget, with shortfalls totalling £0.728 over the period 2019/2022, we acknowledge the council has progressed on savings plans, which when incorporated into the MFTS will show the council will not require the use of its general fund reserves to balance the budget. ▸ The financial challenges for local government organisations are increasing and the council has a good understanding of the risks it faces, and considered plans to address them, is important that the Council ensures future savings plans are delivered in full to strengthen its underlying financial position

06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annnual Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters arising to the Governance Committee.

Other reporting issues

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

We have no matters to report with regard to the above.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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.

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.

Our audit was not designed to express an opinion on the effectiveness of internal control and as we have adopted a fully substantive approach, we have therefore not tested the operation of controls. As a result of the work undertaken we have identified some deficiencies in internal control as follows:

- Our review of key contracts has identified a number of significant contracts/leases (eg BIFFA waste management). which were not included on the contracts registers. The council has agreed the contact register will be refreshed, removing old contracts and updating to include all contracts. The contract register will also be periodically circulated to heads of service, to confirm the contract register remains accurate.
- We highlighted in 2016/17, the council uses set percentages to calculate the bad debt provision, the rates being used were set in prior years and no evidence was available that any review has been carried out over its reasonableness. For 2017/18 the council has updated the bad debt provision calculation for business rates and council tax, these are now based on the council's experience of collection rates, the process for calculating the bad debts on other debts is being reviewed to ensure the bad debt provision is based on the council's experience of actual collection rates.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 6 February 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you **and your Governance Committee** consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance Committee on 24 July 2018.

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

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

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

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Audit Fee – Code work	**43,169**	**43,169**	**43,169**	**50,169**
Additional Fees - valuation of HRA assets	**2,997***	**TBC**	**0**	**0**
Total Audit Fee – Code work	**46,166**	**TBC**	**43,169**	**50,169**
Housing Benefits Subsidy Claim	**TBC**	**14,729**	**14,729**	**16,361**
Capital Pooling Claim	TBC	0	0	1,600
Total non-audit services	TBC	14,729	14,729	17,961
Total fees	TBC	TBC	57,898	86,091

*For 2017/18, subject to PSAA approval, we have agreed additional fee of £2,997 in relation to additional work carried out over the change in valuation methodology for HRA property plant and equipment and the change in valuer to Innes England.

09 Appendices

Appendix A

Required communications with the Governance Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Governance 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.	6 February 2018 Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	6 February 2018 Audit planning 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 ▸ Other matters if any, significant to the oversight of the financial reporting process	24 July 2018 Audit results report

Appendix A

		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 ▸ The adequacy of related disclosures in the financial statements	24 July 2018 Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	24 July 2018 Audit results report
Subsequent events	▸ Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	24 July 2018 To be confirmed with letter of representation at Governance Committee meeting
Fraud	▸ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Governance Committee responsibility.	24 July 2018 Audit results report

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority'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 ▸ Difficulty in identifying the party that ultimately controls the Authority	24 July 2018 Audit results report
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 ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	6 February 2018 Audit planning report and 24 July 2018 Audit results report

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	24 July 2018 Audit results report
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of	24 July 2018 Audit results report
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	24 July 2018 Audit results report

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	24 July 2018 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	24 July 2018 Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	24 July 2018 Audit results report
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	6 February 2018 Audit planning report 24 July 2018 Audit results report
Certification work	▸ Summary of certification work	Certification Report

Appendix B

Management representation letter

Management Rep Letter

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 2018. 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 2018 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 2017/18.

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 2017/18.

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 2017/18. 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 2017/18, 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 these differences identified by and brought to our attention by the auditor because we do not believe that they are material. More specifically;
This was an error caused by the difference in estimate of investment values to actuals. Due to the impact affecting both side of the balance sheet only, and so not the cost of services, no adjustment was made. We are comfortable that the estimates used this year are adequate for the purpose. The £0.147m is, as noted, a projected amount rather than a fully quantified figure, therefore an adjustment would be inappropriate.

Management representation letter

Management Rep Letter

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

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

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 identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- 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 and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.

Management representation letter

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

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

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

D. Liabilities and Contingencies

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

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

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

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

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report by the Director of Corporate Services and the Annual Governance Statement.

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

G. Retirement benefits

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

Management representation letter

H. Estimates

National Non-Domestic Rates Appeals Provision
We confirm that the significant assumptions used in making the National Non-Domestic Rates (NNDR) appeals provision appropriately reflect our expectation of the likely financial exposure from NNDR appeals.

We confirm that no adjustments are required to the NNDR appeals provision estimate and disclosures in the council financial statements due to subsequent events.

Doubtful Debt Provisions
We believe that the measurement processes, including related assumptions used in making the:
General bad debt provision, Tenants rent bad debt provision, Council Tax bad debt provision, NNDR bad debt provision; and HRA overpayments provision, appropriately reflect our ability to recover the related receivables outstanding at 31 March 2018.

We confirm that no adjustments are required to the accounting estimates and disclosures in the council financial statements due to subsequent events.

I. Use of the Work of a Specialist

We agree with the findings of the following specialists that we engaged:

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
Link Treasury Services Limited	Fair value of the Council's financial instruments

We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council's 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.

Yours faithfully,

_____ _____
Director for Corporate Services Chairman of the Governance Committee

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.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com