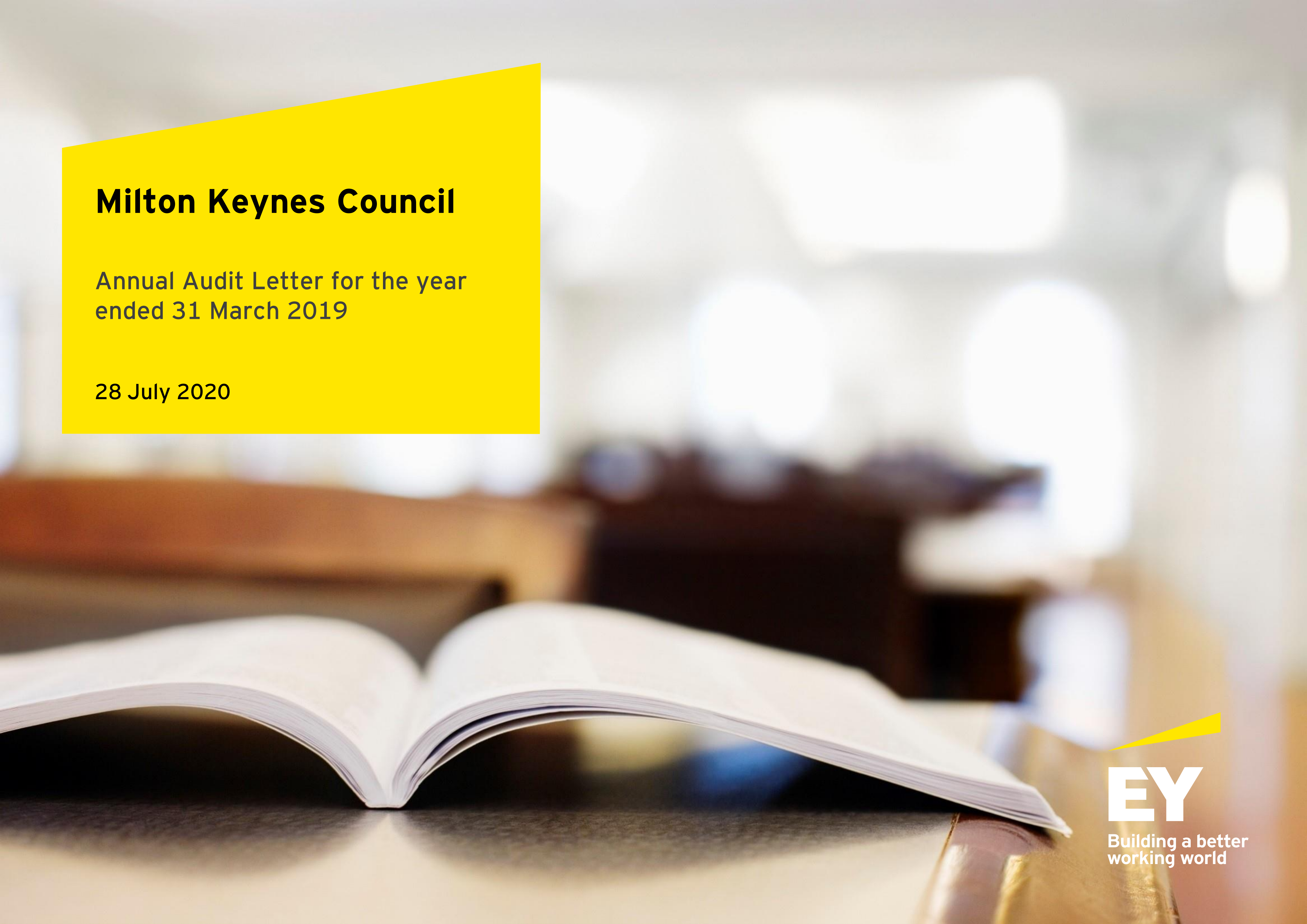
Milton Keynes Council

Annual Audit Letter for the year ended 31 March 2019

28 July 2020



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Contents

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

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA set 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 and Terms of Appointment. 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.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Milton Keynes Council (the Council) following completion of our audit procedures for the year ended 31 March 2019.
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 2019 and of its expenditure and income for the year then ended. Our opinion included an emphasis of matter in relation to the COVID-19 disclosures.
► 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 except for in relation to working with partners and other third parties.

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).	We are required to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Our work in this area is concluded. We have no matters to report in relation to this.

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 draft Audit Results Report was issued on 17th December 2019. Our final report was issued on 15th July 2020.
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 16 July 2020.

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

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

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 2018/19 Audit Results Report to the Audit 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 of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 5 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 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 the 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 extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). 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.

03 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 other guidance issued by the National Audit Office and issued an unqualified audit report with an emphasis of matter in relation to the COVID-19 disclosures, on 16 July 2020.

Our detailed findings were initially reported to the 17 December 2019 Audit Committee. An update was taken to the 31 January 2020 Audit Committee, and our finalised report including all findings was issued on 15th July 2020.

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

Significant Risk	Conclusion
Incorrect capitalisation of revenue expenditure Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. For Milton Keynes Council, we consider this risk to be present in: ➢ Additions to property, plant and equipment; and ➢ Inappropriate transfers between the Housing Revenue Account (HRA) and the General Fund. We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme. In addition there is a risk where transfers between the HRA and general result in incorrect treatment of HRA revenue expenditure.	We did not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources. We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. Capital expenditure in relation to Investment Properties and Revenue Expenditure Financed from Capital Under Statute (REFCUS) are not material, therefore we focused our testing on property, plant and equipment capital additions. Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised, or any inappropriate transfers between the Housing Revenue Account and the General Fund.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Introduction of new accounting system Milton Keynes Council changed its general ledger from 1 April 2018, moving from SAP to the ERP Gold system hosted by LGSS. The change in finance system involved a transfer of closing balances from SAP system to the new system. Issues arising from data migration of implementation of processes and controls related to the new system gives rise to a pervasive risk to the financial statements. Given the potential impact we have determined that this is a significant risk.	We undertook the following procedures: ➢ Identified and reviewed the steps that management have taken to ensure completeness and accuracy of transfer of balances; ➢ Reviewed the design and implementation of IT controls such as logical access and system update controls. We have engaged our IT specialist to support our work in this area, and have undertaken this work across all of our clients making use of LGSS; ➢ Reviewed any internal audit work in this area to inform our own testing, and minimise duplication; and ➢ Tested that the opening balances on the SAP system reflect the closing balances on ERP Gold We concluded that management had performed appropriate reconciliations to test that the transfer of opening balances has taken place correctly. This was confirmed by our substantive procedures. Our IT specialists performed a review of the design and implementation of controls within the new General Ledger system. Their work has provided us with assurance that the controls were designed appropriately and implemented correctly, with the exception of four control gaps; three of which were under remediation at the time the testing was conducted. The control gap that was not under remediation related to access to developers. This control gap risk was mitigated by our substantive testing which has demonstrated that despite this gap, the balances are materially accurate and complete.
Risk of error in the valuation of the recycling centre A recycling centre with a total carrying value of £133 million was revalued in 2018/19. Due to the significance of the value and the nature of the asset (more specialised in nature and therefore more complex to value), we have identified the valuation of this asset as a separate significant risk.	We engaged our internal specialists to assess the appropriateness of the methodology and assumptions applied by the valuer for this high value asset. We reviewed the contract to assess whether the accounting treatment and judgements applied were consistent with the terms of the contract. We performed a calculation applying relevant rates of indexation to the buildings and equipment elements of the asset. The valuation of the asset is based on cost, which was initially determined in 2013. We note that this price would have factored in inflation up to the point of the expected completion date. No inflation had been applied up to the valuation date, whereas the methodology requires determining a current day replacement value. We therefore performed a calculation applying relevant rates of indexation to the buildings and equipment elements of the assets. We also noted that no obsolescence had been applied in determining the closing asset value despite the facility being completed prior to commissioning in late 2016. We therefore allowed for 2 years of obsolescence, assuming a target life of 50 years for the buildings and 35 years for the equipment. This resulted in a value that was approximately £6m higher than the value reflected in the financial statements. When considered against our overall materiality of £11.2m and our performance materiality of £8.4m we concluded that this variance was reasonable and within an acceptable threshold.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Risk of error in the valuation of land and buildings The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £1.5 billion and are subject to valuation changes, impairment reviews and depreciation charges. In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.	We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues. For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations. We confirmed that the information provided by the valuer as the management's expert had been appropriately reflected in the financial statements. We also considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation. We asked management to perform an assessment of the impact of assets not revalued in year. This identified a potential material difference in closing property, plant and equipment balances. Consequently, management instructed their valuer to undertake further valuations as at 31 March 2019. The further revaluations resulted in a corrected misstatement which increased asset valuations by £5.8 million. Overall, we were satisfied with the assumptions employed within the valuations, with two exceptions: 1. We disagreed with an index (BCIS) used in one instance, which has resulted in the uncorrected misstatement reflected in section 04 of this report of £1.2 million. 2. This year, the external specialist chose to change the basis that Community Centres were valued on from depreciated replacement cost (DRC) to existing use value (a basis which relies on a market with a 'reasonable' number of transactions). The external valuer was unable to demonstrate that such a market existed and management therefore agreed to adjust the valuations based on an assessment of what a DRC valuation would have been, which essentially reversed the majority of the impairment recognised due to the change of basis. This resulted in an increase to asset values of £8.3 million. For 2019/20, the Authority has agreed to revalue Community Centres on a DRC basis. Our work in relation to Investment Property identified no issues.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Risk of error in the valuation of the net pension liability The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Buckinghamshire Pension Fund. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled over £380 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund. 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.	We liaised with the auditors of Buckinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Milton Keynes Council. We also assessed the work of the Pension Fund actuary Hyman Robertson including the assumptions they used by relying on the work of PWC and considering any relevant reviews by the EY actuarial team. Finally, we reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. We were satisfied that the Authority had correctly reflected the IAS 19 entries provided by the actuaries in the financial statements We are also satisfied that the actuaries are appropriately qualified. For 2018/19, there was a national issue which resulted in a late change to the Authority's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". We asked management to obtain an updated actuarial estimate of net pension scheme liability taking into account the McCloud ruling and any difference between actual and estimated return on pension scheme assets. The impact was an increase to the net pension liability of £8.1 million. We assessed the appropriateness of the increased liability in the light of these adjustments and concluded that it was reasonable.
IFRS 9 financial instruments This new accounting standard was applicable for local authority accounts from the 2018/19 financial year and changed: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There were transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provided guidance on the application of IFRS 9.	We: ▸ Obtained the Authority's assessment of the impact of IFRS 9; ▸ Considered which elements of the financial statements would be most effected by the standard, and focused our testing on these areas – specifically bad debt provisions and the valuation and classification of financial assets; ▸ Considered the classification and valuation of financial instrument assets; ▸ Assessed whether or not bad debt provisions appropriately reflected the expected credit loss model; and ▸ Checked disclosure requirements. There were no matters arising that needed to be brought to the attention of the Audit Committee.
IFRS 15 Revenue from contracts with customers This new accounting standard was applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard covered the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The impact on local authority accounting was limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We: ▸ Obtained the Authority's assessment of the impact of IFRS 15, which concluded that the impact was not material; ▸ Considered application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ checked additional disclosure requirements. There were no matters arising that needed to be brought to the attention of the Audit Committee.

Financial Statement Audit (cont'd)

Other Matters

Misstatements due to fraud or error

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

This is a risk that we recognise on all engagements. Our overall response to this for Milton Keynes Council included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes for safeguarding against fraud; and
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:

1. Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
2. Assessing accounting estimates for evidence of management bias; and
3. Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risk may manifest themselves and identified separate fraud risks as discussed above.

We did not identify any issues or indications of management override in our testing. We did however identify the journal authorisation controls should be improved.

The emergence and spread of COVID-19

The emergence and spread of COVID-19 is a significant matter that arose prior to our conclusion of the 2018/19 audit. We did not identify any new significant risks in relation to our 2018/19 audit. However, we brought the following matters to the attention of the Council:

Going concern assessment and disclosures

There is a presumption that the Council will continue as a going concern. However, the current uncertain economic environment as a result of Covid-19 increases the need for the Council to undertake a detailed going concern assessment to support this assertion. From an audit perspective, the concept of going concern in the auditor's report is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we were required to see evidence of going concern up to and including July 2021, which is 12 months from the expected date of issue of the audit report.

Therefore, the Council's going concern assessment and disclosure in the accounts needed to consider information relevant to the 2021/22 financial year. We scrutinised the Council's cashflow forecast and considered cash and investment balances to assess liquidity. Management performed an updated assessment of its Medium Term Financial Plan and we considered the sensitivities and key assumptions set out within this assessment as part of our audit procedures. We also took into account the s151 Officer's rationale in relation to the need for a s114 notice and his conclusion that one was not required.

We have discussed with management the need to make specific disclosures in the 2018/19 statements on their assessment of going concern and in particular if any material uncertainties are identified. These disclosures have been added.

Events after the reporting date

The Council is required to disclose material events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. COVID-19 has resulted in unprecedented circumstances and economic uncertainty. Therefore, it is important that the Council gives due consideration to the disclosure of events after the reporting date within their financial statements. The Council has updated their disclosure to identify COVID-19 as a non-adjusting post balance event and to detail its assessment of the possible impact. We reviewed these disclosures for compliance with IAS 10 with no issues. We were satisfied with the nature and extent of the additional disclosures made in relation to going concern and events after the reporting date, as well as additional disclosure included in the Narrative Report.

Auditor's report

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty COVID-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all audit reports. This consultation process has concluded and agreed with our assessment that it is appropriate to include an Emphasis of Matter paragraph in relation to the COVID-19 disclosures within our audit report.

Financial Statement Audit (cont'd)

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	We determined planning materiality to be £11.2m for the single entity and the group (2017/18: £12.0m), which is 1.8% of gross revenue expenditure reported in the draft accounts of £624m. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £562,000 for the single entity and the group (2017/18: £597,000).

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, and
- Related party transactions.

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

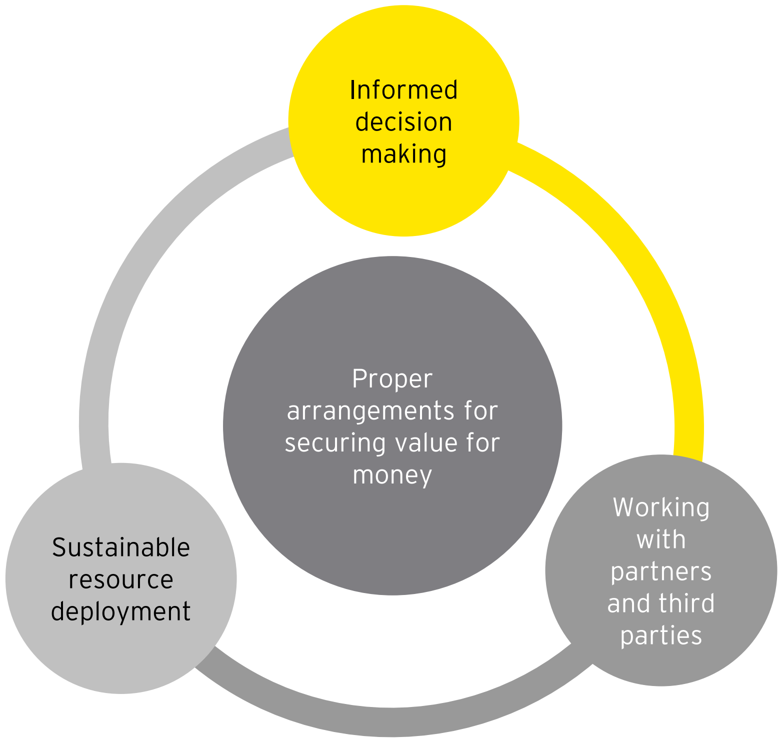
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness in 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 identified one significant risk in relation to these arrangements. The tables that follow present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We identified 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 have identified weaknesses in contract governance, monitoring and management procedures in relation to YourMK.

Value for Money (cont'd)

On 16 July 2020, we therefore issued a qualified value for money conclusion in relation to the governance arrangements and contract monitoring processes in place in relation to the contracts that YourMK was set up to oversee.

Significant Risk	Conclusion
Value for money risk around lack of contract performance management and governance The governance and management of the contracts is key to ensuring value for money is obtained by the Authority. The risk is that the contract performance and spend is not monitored and the Authority does not achieve value for money from the contract as costs to the Authority may not be appropriately managed and controlled. In addition the risk may result in poor service if performance is not managed against KPIs.	In response to the risk, we reviewed the governance arrangements surrounding the contracts, their management and performance against KPIs and how these changed since the cessation of YourMK.Our overall conclusion was that governance over the contracts was weak. The contract management processes and controls were also weak in places. We made the following recommendations based on our findings and these were shared with the Council in 2019, the Council has taken steps to address these and we will review progress as part of our 2019/20 audit: 1. The Authority should ensure that all contract documentation is up to date and accessible for review and monitoring purposes. 2. When setting up committees, joint ventures, subsidiaries or other vehicles, the Authority must ensure that strong governance arrangements are in place and that these are monitored and adhered to. 3. The Authority must strengthen the financial and performance management controls over the contracts overseen by YourMK. The Authority should also assess other key contracts that are in place and get assurance that they are not subject to the same issues. 4. The Authority's legal team should review the repairs and maintenance contract and assess whether a retrospective 'true-up' is possible. 5. The Authority should ensure key individuals responsible for authorising payments and monitoring significant contracts are clear on the key aspects of the contract and on what basis they are authorising payment. 6. The Authority should ensure that processes to performance manage the contract are followed. They should also ensure that these are in place for other key contracts. 7. The Authority's legal team should review the contracts overseen by YourMK and assess whether the interpretation of the contract is appropriate. 8. The Authority should ensure areas of interpretation are agreed in writing at the outset or as they occur to minimise any confusion or disagreement. 9. Where there are different views on amounts e.g. exclusions, these should be raised with the contractor and evidence obtained and reviewed. 10. Advance payments should be fully supported, along with the rationale for them, and this should be checked before payments are approved. 11. The Authority's should ensure contract review is completed either through review of monthly costs or through review of the final accounts process at the end of a planned works process. 12. The Authority should ensure a consistent check is carried out on invoices received in addition to checks to ensure work invoiced for has been carried out. 13. The Council's legal team should review the contracts against OJEU rules and identify any action needed, if any. 14. The Authority should test a sample of intracompany invoices to ensure they are appropriate and in line with expectations. We recommended that the Authority checks governance and monitoring arrangements against other key contracts to ensure that weaknesses found in this case are not replicated elsewhere.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. The National Audit Office have made enquiries of us regarding amendments to the data collection tool since the draft was submitted to the Authority. We have responded to these enquiries and received confirmation that no additional procedures will be required.

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 2018/19 financial statements from members 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 Audit Committee on 17 December 2019 and circulated an update on 15 July 2020. 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.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls, however, we identified the following matters.

1. Mapping of account codes

The accounts were prepared using a different method to previous years, and additionally a new general ledger system was introduced as at 1 April 2018. The combination of these changes made preparation of the draft accounts more challenging. There have been a number of iterations to various notes within the financial statements as a result.

2. Asset valuations

The Code of Practice requires authorities to revalue assets at least every 5 years. To inform the cyclical valuation, an assessment of the impact of assets not revalued in year should be undertaken to assess whether revaluation is required. The Authority's practice is to value as at 1st April. If this was amended to 31st March the impact of assets not revalued would be reduced, since asset values are required to be appropriate as at the balance sheet date. Following the emergence of COVID-19 this will be of particular importance to the March 2020 year-end.

3. Review of the draft financial statements

We noted that a number of errors were present in the draft accounts presented for audit relating to casting, omissions, and inconsistency in the accounts. We recommend that more time is built in to the closedown process for thorough review of the draft accounts to reduce this going forward.

4. Design and implementation of controls in ERP Gold

As noted in section 2 of this report, our IT specialists identified four control gaps in relation to ERP Gold. Three of these areas were already under remediation and one further area had yet to be remediated. We would encourage management to follow up on all four to ensure that remediation has taken place and that it has been effective; involving their internal auditors to support with this assessment as necessary.

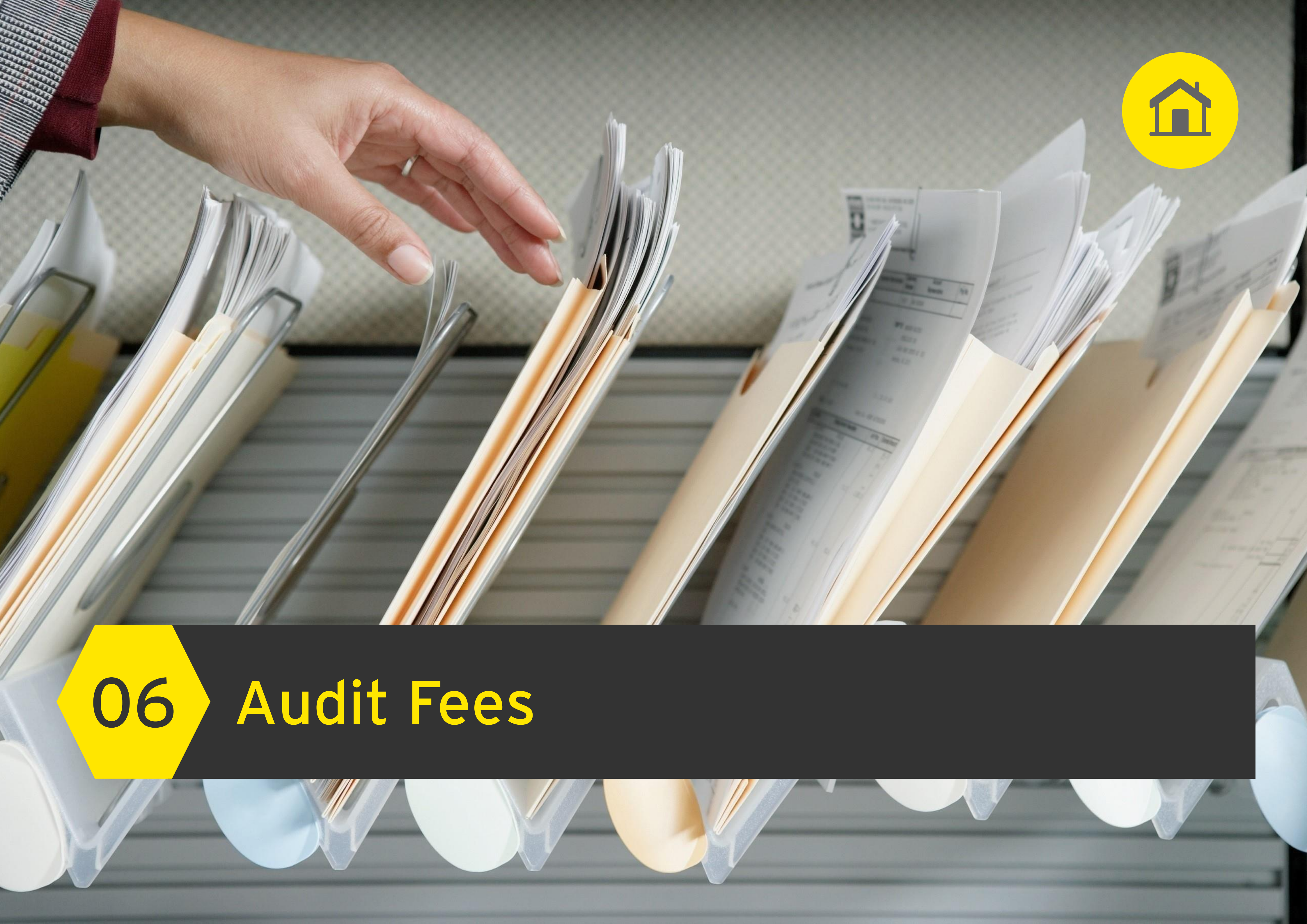
As specific area identified in our work is lack of the requirement to approve journals within the system. This was mitigated through formal approval of accruals and retrospective approval of journals through the budget management process, however, given the susceptibility of the financial statements to fraud or error through the posting of inappropriate journals, we would recommend that a system control is included to ensure evidenced segregation of duties for journal posting at a granular level and on a timely basis.

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 Authority's financial reporting process. We brought a matter to the attention of the Committee concerning compliance with laws and regulations. One of the issues that was dealt with during the course of the audit was significant pension payment that was made by the Authority at the beginning of the year. The payment was made following agreement from the actuary that this would constitute a prepayment of two year's of pension contributions and would result in a discount to their pension contributions.

The Local Pension Scheme Regulations 2013 set out how the employer contribution required is determined, and specifies that this is set out in the Rates and Adjustments certificate. Although the Rates and Adjustments certificate was revised, it did not correctly state that the upfront pension payment of £24 million was intended to relate to employer contributions for both 2018/19 and 2019/20, and what the relevant contributions for each year were. We have obtained both contemporaneous and direct evidence from the actuary that demonstrates that the intention was that the upfront payment be treated as a prepayment. Failure to account for employer contributions in line with the Rates and Adjustments certificate is, however, an area of non-compliance with the Pension Regulations.

Our view is that this non-compliance is not material due to the circumstances set out above, and that the accounting treatment adopted by the Council reflects the substance of the transaction.



06 Audit Fees

Audit Fees

Our fee for 2018/19 is set out below:

	Proposed final fee 2018/19	Scale fee 2018/19
	£'s	£'s
Total Fee – Code work	224,338 (Note 1)	135,338
Total Fee – Grant Claims	66,580 (Note 2)	N/A

All fees exclude VAT

Note 1 – This report demonstrates a greater number of audit issues and amendments that envisioned in the planned fee, so we will need to seek a variation to the scale fee of £89,000. Of this £27,000 is in relation to the work on Your MK and this was agreed at the time of our review but is yet to be charged. The balance of £62,000 relates to additional work in relation to:

- delays to the initial agreed audit visit and inefficiencies due to not having a complete set of statements and working papers as planned;
- asset valuations;
- the net pension liability including consideration of the McCloud judgement;
- the accounting treatment of the Pension prepayment;
- the transfer to a different general ledger;
- the value for money conclusion;
- additional time incurred due to analytics data initially provided being incomplete;
- additional time spent in relation to errors in the draft financial statements presented for audit; and
- review of the implications of Covid-19 on the financial statements and consultation on the Emphasis of Matter paragraph.

Note 2 – We are engaged as reporting accountants for the following claims:

Housing Pooling of Capital Receipts 2017/18 claim form delivered this year – Agreed fee £5,000

Teachers' Pension – 2017/18 claim form delivered this year – Agreed fee £12,000

Housing Benefits and subsidy – Agreed fee - £6,875 for the baseline certification work and £3,285 for each set of extended ("40+") testing. This year there are 13 sets of additional testing. Total fee £49,580.

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