FINAL Milton Keynes Council Audit results report

Year ended 31 March 2021

6 September 2022

Building a better working world

Audit Committee

Milton Keynes Council

Civic Offices
1 Saxon Gate East
Central Milton Keynes
MK9 3EJ

6 September 2022

Dear Audit Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for 2020/21.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Milton Keynes Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

Yours faithfully

Neil Harris

Partner

For and on behalf of Ernst & Young LLP

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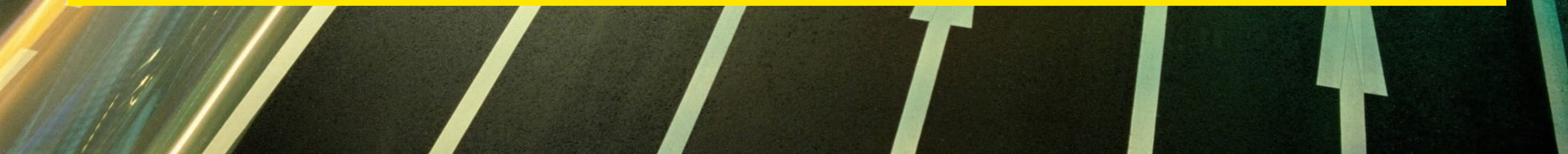
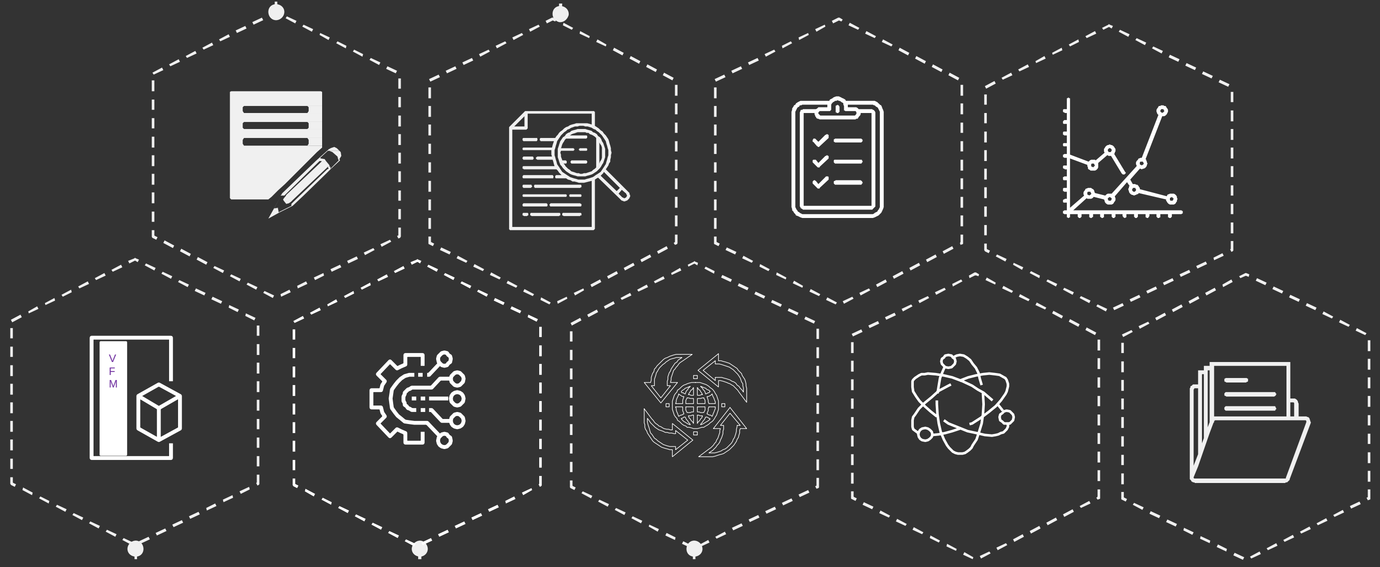


Contents



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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Milton Keynes Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Milton Keynes 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 Audit Committee and management of Milton Keynes 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 circulated on 26 November 2021, 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.

Additional audit procedures as a result of Covid-19

Changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

This was also the approach followed in 2019-20.

<u>Updated Audit Procedures</u>

Following discussions with the Council since March, we have reviewed the Council's subsequent events disclosure in respect of the Calverton Lane adverse possession claim and the contingent liability for the residual waste treatment facility costs claim and are satisfied these are in line with our expectations.

Executive Summary

Status of the audit

We have concluded our audit of Milton Keynes Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our audit planning report.

We have issued a qualified audit opinion as set out in Section 03 of this report.

Basis of Qualified Opinion

An issue has been raised via the NAO's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that needs to be derecognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost.

Per 4.1.2.43 of the Code, "Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset that has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010."

Current Year expenditure testing demonstrates that the client has split assets by year and type generally by category; Roads & Junctions, Footways & Redways, Signage, Bridges & Street lighting. They have some significant projects split out separately like new roads and major improvements broken down. The Council have been able to provide a breakdown of the £324million gross book values and useful economic lives by asset category and include this in their disclosure note.

However, the Council have not been derecognising as identifying what needs writing off is problematic, the major complication for Milton Keynes Council is the transferred balance from Bucks Council when Milton Keynes Council became a Unitary Authority back in 1997. Milton Keynes Council have no basis for the £42m transfer made at the time. This was the NBV and was used to add the assets to the Balance Sheet and used as the GBV which the Council have been depreciating over 40 Years since recognition. For years 2010/11 to 2020/21 the only information retained is the total addition with no information held as to whether it was a new or a replacement addition

We are therefore unable to obtain sufficient, appropriate evidence as to whether the net book value of fixed assets is materially correct. Given the lack of information that the Council has, to be able to calculate a prior year adjustment, together with the lack of detail on the Fixed asset register, we cannot audit the closing balance sheet position and have concluded that a modified opinion is appropriate. This is based on the lack of knowledge around the completeness of the potential prior year adjustment and that there are insufficient detailed records to support a prior year adjustment to be satisfied that it has been properly resolved, especially given how long lived the assets are (40 years per the accounting policy).

Conclusion:

Based on our inability to audit whether the infrastructure assets are materially correct, as a result of the lack of sufficiently detailed accounting records we are proposing to issue a qualified opinion.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan Update and - VFM Assessment taken to the 2 February 2022 Audit Committee, we reported that we were well progressed with our value for money (VFM) risk assessment. Our audit work papers are subject to Engagement Partner and Engagement Quality Control Review. Based on our work to date, we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO’s 2020 Code.

We have concluded our work on the risk assessment and arrangements put in place by the Council fore 2020/21. We have no matters to report by exception in the auditor’s report in resect of value for money (see Section 03).

Finally, in accordance with the 2020 National Audit Office Code of Audit Practice, we plan to issue our VFM commentary by the end of December 2022 as part of issuing our Auditor’s Annual Report.

Executive Summary

Audit differences

We have identified a number of audit differences which have been adjusted by management.

Details can be found in Section 04 Audit Differences.

We have no unadjusted differences to report from the work completed to date.

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.

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.

The NAO has recently issued guidance on the completion of WGA and we have completed our Assurance Statement to send to the NAO. We have no matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Milton Keynes Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the “Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We have identified some key control deficiencies as part of the audit process in the following areas:

- Contracts register – completeness of the contract register
- Payroll – Starters
- PPE – Council Dwelling – Valuers Report Review
- Update: Capital loans - accounting for loan repayments
- Update: NDR Appeals provision

Please refer to Section 07 Assessment of Control Environment for more detail.

Independence

Please refer to Section 08 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Management override
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) 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 judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
    - testing of journal entries and other adjustments in the preparation of the financial statements.
    - assessing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant and unusual transactions.

What are our conclusions?

We are completing our procedures in this area. We have not currently identified any:

• material weaknesses in controls or evidence of material management override;

• instances of inappropriate judgements being applied; or

• any other transactions during our audit which appear unusual or outside the Council's normal course of business.

We have no matters to report.

Significant risk

Incorrect capitalisation of revenue expenditure and revenue expenditure funded by capital under statute (REFCUS)

What is the risk?

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

By incorrectly classifying expenditure as REFCUS, the Council could improve the reported revenue position.

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Council's judgement that an item is capital expenditure in nature. If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment and REFCUS additions.

What did we do?

- Tested a sample of capital expenditure at a lower testing threshold to verify that revenue costs have not been inappropriately capitalised.
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.
- Tested a sample of REFCUS items at a lower testing threshold to verify that they have been appropriately classified as REFCUS.

What are our conclusions?

Our sample testing of additions to property, plant and equipment and REFCUS:

- Found they had been correctly classified as capital and included at the correct value.

- Tested invoices, capital expenditure authorisations, leases and other data that support capital additions

Significant risk

Valuation of Recycling Centre

What is the risk?

A recycling centre with a total carrying value of £119 million was revalued in 2019/20. 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.

The 2019/20 audit identified misstatements reducing the balance from £133m and resulted in a prior period adjustment.

What judgements are we focused on?

Our work on the valuation of the recycling centre focussed on assessing the reasonableness of the methodologies adopted by the Council's valuers in undertaking their valuation and of the key assumptions input into this valuation.

What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property:

- We have engaged our EY capital equipment specialists to assess the appropriateness of the methodology and assumptions applied by the valuer including land, building and plant and equipment.
- Considered changes to useful economic lives as a result of the most recent valuation.
- Tested accounting entries have been correctly processed in the financial statements.

Significant risk

Valuation of Recycling Centre

What are our conclusions?

We have agreed with the Council a reversal of the Revaluation Gain on the Waste Treatment Recycling Centre Building from £39.658 to £36.6m. This aligns the Building value with that reported in the 2019/20 financial statements.

We are satisfied that the remaining values associated with the waste treatment recycling centre are materially correct.

It has been noted by our internal specialists that the valuation methodology and process adopted by WHE is extremely limited in depth, with no analysis or methodology relative to RICS red book standards for such valuations. The two Specialists (WHE and Hilco) adopted different overall plant construction costs and depreciation start dates. Only Hilco provided data/commentary to support the inputs adopted.

WHE adopted a capitalisation date of 2017, compared to the 2014 capitalisation date adopted by Hilco:

- We understand Hilco confirmed the year of construction with the Council, however WHE consider 2017 more appropriate as that was when the site was completed.
- In view of the nature of the Plant, we would typically expect these dates to be aligned (if there is a difference, it would be reasonable to expect the building construction to be completed before the plant & machinery, which is contrary to the information we have been provided with).
- In the absence of any more granular explanation/evidence provided by WHE, we have adopted the Hilco capitalisation date of 2014 for reporting consistency.

Recommendation: The Council should engage with WHE and Hilco to ensure an alignment of valuation dates and capitalisation dates in accordance with the relevant RICS standards to ensure the valuation is consistent across all areas.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What did we do?
Valuation of Property, Plant & Equipment & Investment Property – inherent risk • The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts, totalling £1.6 billion and £97 million respectively at 31 March 2021. • These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balance sheet, management are required to make material judgements and apply estimation techniques. • We consider that where assets are valued at either depreciated replacement cost or existing use value, fair value or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.	We have: • 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); • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Tested a sample of beacon properties to ensure that the value is in line with market value and that the social housing factor has been correctly applied • Reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated; • Considered changes to the useful economic lives as a result of the most recent valuation; and • Tested accounting entries, ensuring these have been correctly processed in the financial statements including testing the classification of assets. Conclusions: • We have concluded our work in respect of Council Dwellings and the Council's Investment Property. We have no issues to report. • We have concluded our work on EUV and DRC Property, Plant & Equipment valuations. We have identified 2 assets that were valued incorrectly – amendments have been made of £1.9m and £1.4m respectively. • We have reviewed the work of Hillier Hopkins LLP in respect of MKDP Investment property as part of our file review of their work. We have no matters to report.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Pension Liability Valuation– inherent 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 Buckinghamshire Pension Fund. 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 2021 this totalled £489 million. The information disclosed is based on the IAS 19 report issued to the Council 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. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk. An additional consideration in 2020/21 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Buckinghamshire Pension Fund, for example private equity investments where valuations as at 31 March 2021 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.	We have: • Liaised with the auditors of Buckinghamshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Milton Keynes Council; • Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. • Considered the nature and value of level 3 investments held by Buckinghamshire Pension Fund and the proportion of the overall Fund relating to Milton Keynes Council in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2021. • Engaged EY Pensions to review the inputs in to the actuarial model and conclude on the reasonableness. No matters identified.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Pension Liability Valuation– inherent risk (cont) An issue has arisen across all local government audits in 20/21 in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will use EY Pensions to assess the inputs to the model used by the Council's actuary to determine whether this is reasonable.	See previous slide.
Recognition of Covid-19 grant income The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants to be manipulated to improve the reported position.	We have: • considered the elements of grant income, their susceptibility to manipulation and the appropriate audit response. • Considered the disclosure within the financial statements and have proposed an amendment to the Council to set out clearly the Covid-19 related grants. We have no other matters to report.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What did we do?
Going concern Covid-19 has created a number of financial pressures throughout Local Government. For Milton Keynes Council there is increased financial pressure. This includes significant reductions in income for the Council from car parks, business rate gains and other income; as well as additional cost pressures. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom,* still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	We have reviewed the draft going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. These disclosures include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions. Based on our audit procedures to date, we have not identified any material uncertainties associated with the Council's liquidity and viability that would have a material impact on the continuity of service provision. Management have updated the disclosure within the 2020/21 financial statements. We have reviewed this disclosure and concluded our procedures in respect of the revised financial statements. We have no matters to report.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Non-Domestic Rates Appeals Provision NDR Appeals Provision represents a significant balance in the Council's accounts and are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end NDR Appeals Provisions balance held in the balance sheet. As this amount is significant, and has increased materially since 2019/20 we will review the Council's assessment under ISA 540 in respect of assumptions supporting the estimate.	We have: • considered the work prepared in deriving the provision • assessed the reasonableness of assumptions made by the Council. • assessed and tested the accuracy of source data used by the Council. • tested accounting entries have been correctly processed in the financial statements We identified the Council did not have sufficient records to support the provision in the financial statements in 2020/21. Further to this challenge the Council agreed to review the provision and engaged Wilks Head and Eve to provide further support. An prior period restatement of £16m has been made to the 2019/20 Provision from an initial value of £39.004m to £22.929m. The 2020/21 draft accounts figure has also moved from £50.960m to £11.292m. <u>Control Deficiency</u> The original 2020/21 Provision was assessed in May 2021, whilst there is 12 months more information available it is apparent there was a weakness in the Council's control process to ensure a reasonable provision was made. The Council must ensure they have sufficient skills and knowledge to make a reasonable provision for NDR and seek external support as required to obtain the required information to do this.

Other areas of audit focus

What is the risk/area of focus?	What did we do?

Minimum Revenue Provision
 	
The Council is required by statue to set aside a minimum revenue provision (MRP) to repay external debt. The legislation that underpins the calculations has been amended in recent years. As it is a number of years since this has been reviewed in detail. We will review this provision in detail.
	We have:
	• considered the Council's policy and calculation behind the provision
	• Used our internal technical expert to review the calculation
	Update: Our review is now complete. We bring the following matters to your attention:
	• The accounting entries relating to the conversion of the loan to MKDP from capital to revenue in 2019/20 were incomplete which understated capital receipts by £30.922 million. Management agreed to a prior year adjustment in this regard.
	• Linked to this we noted the Council recognised capital receipts in 2018/19 of £1.813 million before they were received. In 2019/20 only £0.922 million was actually received.
	• In 2015/16 the Council reversed decisions made in the previous 3 years to finance £9.1m of HRA capital expenditure from an earmarked reserve and use the Major Repairs Reserve instead. The Council did not seek legal advice on whether reversing a contribution made to an unusable reserve was allowed under statute. This is a low risk issue as the impact is between two usable reserves (HRA Earmarked and Major Repairs Reserve).
	
	<u>Recommendation:</u> We recommend Council seeks advice on the legality of such transactions should a similar situation arise in the future.
	
	• The Council introduced a revised MRP policy, in respect of its supported borrowing, of 2% straight line. This represented a move away from the regulatory method of calculating MRP. The Council's workings highlighted:
	    • Use of Adjustment A which only applies to the Regulatory Method. This understated CFR subject to MRP by £20.6 million.
	    • An out of date HRA CFR which understated the CFR subject to MRP by £20.5 million
	    • Supported borrowing was being recovered over 57 years (instead of 50 per the policy)
	None of these issues affected the MRP charge in 2020/21 due to the existence of an overprovision in prior years though they will increase the charges going forward by approximately £0.8 million per year.
	
	<u>Recommendation:</u> The Council must ensure its processes and policy is clearly followed to ensure all controls are met.
	
	• In relation to the Council's unsupported borrowing we noted:
	    • Schemes totalling £17.297 million with no useful economic life and therefore no MRP being charged on them. The Council must satisfy itself that this remains a prudent approach.
	    • Schemes totalling £6.388 million with lives in excess of 50 years. Fifty years is the maximum allowed under the Statutory Guidance unless the Council has a professional view to the contrary. Officers have agreed to address this in 2021-22.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Minimum Revenue Provision The Council is required by statue to set aside a minimum revenue provision (MRP) to repay external debt. The legislation that underpins the calculations has been amended in recent years. As it is a number of years since this has been reviewed in detail. We will review this provision in detail.	Continued. • Disclosure: The Council made a voluntary overprovision of £5.1 million in 2020/21. Management agreed to disclose this separately in the revised capital expenditure and financing note. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR. Therefore, if no provision is being made on any particular element of its CFR, the provision cannot be said to be prudent. There are various parts of the Council's policy which diverge from this principal. This is currently subject to consultation by DLUHC but any changes required will not be applied retrospectively and will not, therefore, impact on the provision for 2020/21. Recommendation: Given our comments on items not currently attracting MRP charges we recommend the Council reconsiders whether its policy produces a minimum revenue charge which meets the meaning of prudent as set out in the current Statutory Guidance.

UPDATE ON AUDIT APPROACH AND OUTCOME - INFRASTRUCTURE

What is the issue?	What did we do?
Derecognition of Infrastructure assets upon subsequent expenditure / replacement	<u>Background</u> An issue has been raised via the NAO’s Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that needs to be derecognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. Per 4.1.2.43 of the Code, “Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset that has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.” CIPFA published in May 2022 its ‘Temporary Proposals for the Update of the Code of Practice on Local Authority Accounting in the United Kingdom’ on infrastructure assets. In this document it states: • These are often homogenous assets that work as a part of a continuous network that is maintained in a relatively steady state though there may be distinctive parts of this network e.g., carriageways, structure (bridges etc), street lighting, street furniture and traffic management systems. They are largely assets with very long lives. • Infrastructure assets are one of the few categories of property, plant and equipment assets measured using the historical cost basis of accounting rather than at the asset measurement described as ‘current value’. The valuation process for these assets was deemed to be too costly, and therefore infrastructure assets are held in local authority balance sheets at depreciated historical cost. Following the CIPFA consultation, there may be enhanced guidance, or amendments to the CIFPA code. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. Given this lack of record keeping, it is not possible to identify the cost and accumulated depreciation balances that need to be derecognised.

UPDATE ON AUDIT APPROACH AND OUTCOME - INFRASTRUCTURE

What is the issue?	What did we do?
Derecognition of Infrastructure assets upon subsequent expenditure / replacement	Condition survey information may not provide historical spend on projects and is therefore not a source of easily accessible validation of useful economic lives or pointers to previous spend. If parts/components have not been derecognised when replaced or decommissioned: a. For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the property, plant and equipment note to the balance sheet. This will be a matching error, so no impact on the net book value reported on the balance sheet. b. For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive net book value at year end, the error will also impact the balance sheet, where asset values will be overstated. The issues effects additions to infrastructure from 2010/11 when IFRS was adopted by the CIPFA code of practice. <u>Issue:</u> Current Year expenditure testing demonstrates that the client has split assets by year and type generally by category; Roads & Junctions, Footways & Redways, Signage, Bridges & Street lighting. They have some significant projects split out separately like new roads and major improvements broken down. The Council have been able to provide a breakdown of the £324million gross book values and useful economic lives by asset category and include this in their disclosure note. See below. Whilst this information reconciles to the Council's fixed asset register records, the Council is unable to provide any further analysis of subsequent expenditure and associated derecognition by asset category to be able to determine whether this is a replacement addition or not.

Breakdown

		£'000
1997 Transfer on Unitary Status	40	42,460
Roads & Junctions	40	158,784
Footways & Redways	40	25,209
Signage	40	3,011
Bridges	40	29,525
Street Lighting	40	38,392
Passenger Transport	40	16,270
Parking	20	1,394
Open Space	40	253
Open Space & Play Areas	20	4,129
5G Infrastructure	10	5,140
Total		**324,567**

UPDATE ON AUDIT APPROACH AND OUTCOME - INFRASTRUCTURE

What is the issue?	What did we do?
Derecognition of Infrastructure assets upon subsequent expenditure / replacement	The Council have not been derecognising as identifying what needs writing off is problematic, the major complication for Milton Keynes Council is the transferred balance from Bucks Council when Milton Keynes Council became a Unitary Authority back in 1997. Milton Keynes Council have no basis for the £42m transfer made at the time. This was the NBV and was used to add the assets to the Balance Sheet and used as the GBV which the Council have been depreciating over 40 Years since recognition. For years 2010/11 to 2020/21 the only information retained is the total addition with no information held as to whether it was a new or a replacement addition A potential material misstatement exists due to the Council not having sufficient information to amend back to 2010/11. Infrastructure assets are carried at historic cost and therefore trying to use an estimate as a proxy is problematic and agreeing upon the most appropriate way to arrive at that figure is also difficult given the lack of records held. Paragraph 4.7 states that restatement to correct an error may be impracticable where the effects of the retrospective application are not determinable. It goes on to give an example whereby restatement is impracticable as data may not have been collected in prior periods. The CIPFA Code of Practice (the Code) adopted IFRS in 2010. The Code includes the requirements (see authoritative guidance section below) on accounting for subsequent costs which has been in place since 2010. The Council have not complied with the Code in this respect since 2010. We are therefore unable to obtain sufficient, appropriate evidence as to whether the net book value of fixed assets is materially correct. Given the lack of information that the Council has, to be able to calculate a prior year adjustment, together with the lack of detail on the Fixed asset register, we cannot audit the closing balance sheet position and have concluded that a modified opinion is appropriate. This is based on the lack of knowledge around the completeness of the potential prior year adjustment and that there are insufficient detailed records to support a prior year adjustment to be satisfied that it has been properly resolved, especially given how long lived the assets are (40 years per the accounting policy). <u>Conclusion:</u> Based on our inability to audit whether the infrastructure assets are materially correct, as a result of the lack of sufficiently detailed accounting records we are proposing to issue a qualified opinion.

Group Accounting

The Authority prepares group accounts which consolidate the financial statements of Milton Keynes Development Partnership (MKDP). MKDP contain accounting entries and balances that can be considered material or significant to the group, and we classified this as specific scope audit. As a result, we undertake a programme of work to ensure the balances from the subsidiary have been properly consolidated.

MKDP

For MKDP we requested that Hillier Hopkins LLP, as auditors of the entity, undertake a programme of work and we sought assurances from them to ensure the 2020/21 financial statements do not contain material misstatement which may arise within the consolidated financial statements.

We have received responses from Hillier Hopkins in respect of our group audit instructions. We have not identified any fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.

We have concluded our review of Hillier Hopkins work and have no matters to report.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILTON KEYNES COUNCIL

Qualified Opinion

We have audited the financial statements of Milton Keynes Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Accounting Policies,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Movement in Reserves Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 38 and group notes 1 to 7,
- the Collection Fund and related notes,
- and Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes

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 2020/21.

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of Milton Keynes Council and Group as at 31 March 2021 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 2020/21.

Basis for qualified opinion

As set out in Note 24.1 – Property Plant and Equipment, to the Milton Keynes Council financial statements, Infrastructure Assets have a gross book value of £324 million, with a net book value of £247 million as at 31 March 2021. This note also provides management's explanations as to why it is not possible to provide evidence to support the carrying value of these assets.

We were unable to obtain sufficient appropriate audit evidence to support a net book value of £247 million as Milton Keynes Council does not maintain the records to support the derecognition of the gross cost and accumulated depreciation on infrastructure assets when a major part / component of that asset has been replaced or decommissioned, as required by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

This applies from 2010/11 when the Council transitioned to IFRS. Therefore, there are eleven financial year periods (2010/11 to 2020/21) where the Authority cannot demonstrate that it applied the applicable financial reporting framework to Infrastructure Assets.

Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the comparatives for the year ended 31 March 2020. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 Authority and group 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.

Draft audit report

Our opinion on the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts for the year 2020/21, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources 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 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 course of 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 themselves. 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.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the carrying value of infrastructure assets of £247m held at 31 March 2021. We have concluded that where other information refers to the infrastructure asset balance or related balances such as the depreciation charge included within the Cost of Services part of the Comprehensive Income & Expenditure Statement, it may be materially misstated for the same reason.

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 Authority;
- 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Audit Report

Our opinion on the financial statements

Responsibility of the Director of Finance and Resources

As explained more fully in the Statement of the Responsibilities of the Chief Finance Officer set out on pages 31 , the Director of Finance and Resources 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Resources 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations.

We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:
  - Local Government Act 1972,
  - School Standards and Framework Act 1998 ,
  - Local Government and Housing Act 1989 (England and Wales) ,
  - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
  - Education Act 2002 and school Standards and Framework Act 1998 (England)
  - Local Government Act 2003,
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - National Health Service Act 2006
  - The Local Government Finance Act 2012
  - The Local Audit and Accountability Act 2014, and
  - The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

Audit Report

Our opinion on the financial statements

- We understood how Milton Keynes Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, through enquiry of employees to confirm council policies. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure and revenue expenditure funded from capital under statute (REFCUS) to to ensure the capitalisation criteria were properly met and the expenditure was genuine.

- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We evaluated significant transactions and estimates for evidence of management bias.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority'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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Milton Keynes Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Milton Keynes Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

Audit Report

Our opinion on the financial statements

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.

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.

Delay in certification of completion of the audit

We are required under the Code of Audit Practice to complete a return on the Council's submission for Whole of Government Accounts. The NAO have issued the group instruction and we have submitted the assurance return, however, we cannot formally conclude the audit and issue an audit certificate until the NAO have confirmed that no further assurances are required from us to complete their work as group auditor. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts 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 Milton Keynes 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Date:

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 highlight the following misstatements greater than £5m which have been corrected by management that were identified during the course of our audit. We do not have any items above £5m to report to the Committee.

We have agreed with the Council the following amendments:

- Transfer of 2021/22 Potholes grant from income to Receipt in Advance - £853k
- We have identified two assets where the incorrect Gross Internal Area and land areas were used in the initial valuation. A revised valuation has been carried out resulting in the following amendment to Gross Book Values.

Ref	Name	Draft Accounts Gross Book Value (GBV)	Revised (GBV)	Change
LE061	BROOKLANDS PAVILION, BROOKLANDS	1,461,000	3,387,000	1,926,000
OT045	HOLNE CHASE CENTRE, BLETCHLEY	3,477,000	2,058,000	-1,419,000

- The accounting entries relating to the conversion of the loan to MKDP from capital to revenue in 2019/20 were incomplete which understated capital receipts by £30.922 million. A prior period adjustment has been made in respect of this and is detailed in Note 1 to the financial statements.

- The Council over-estimated the business rates appeals provision in 2019/20 as a result of an error which was identified during the 2020/21 audit. The adjustment impacts a number of different statements within the accounts, including the Balance Sheet where the Council have reduced the previously reported level of provision by £16.075m in 2019/20. The 2020/21 provision has also therefore been reduced from £50,960k to £11,292k between the draft and final accounts.

- We have agreed some disclosure amendments to the financial statements – this includes property, plant and equipment, financial instruments and exit packages and some other minor disclosures.

There were no uncorrected misstatements.

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

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

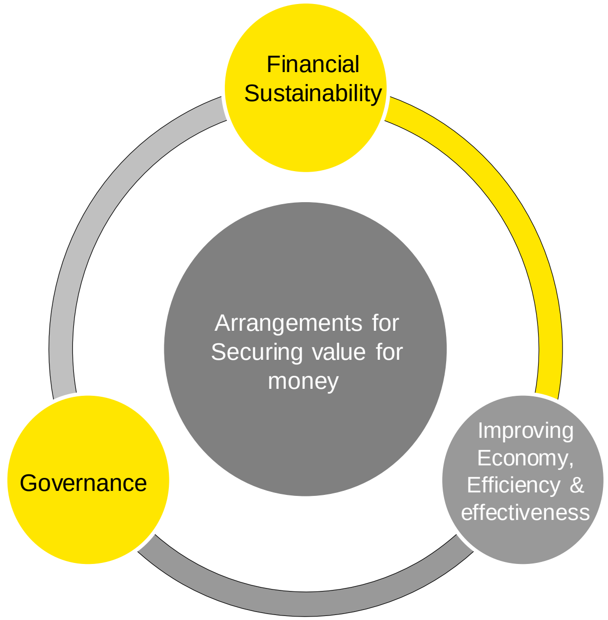
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

In the Audit Plan Update and - VFM Assessment taken to the 2 February 2022 Audit Committee, we reported that we were well progressed with our value for money (VFM) risk assessment. Our audit work papers are subject to Engagement Partner and Engagement Quality Control Review. Based on our work to date, we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have concluded our work on the risk assessment and arrangements put in place by the Council fore 2020/21. We have no matters to report by exception in the auditor's report in resect of value for money (see Section 03).

Finally, in accordance with the 2020 National Audit Office Code of Audit Practice, we plan to issue our VFM commentary by the end of December 2022 as part of issuing our Auditor's Annual Report.



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 for the year 2020/21 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 Statement of Accounts for the year 2020/21 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.

The NAO has recently issued guidance on the completion of WGA and we have completed our Assurance Statement to send to the NAO. We have no matters to report.

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.

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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have no matters to report.

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. We wish to report the following matters:

Contracts Register – Completeness of the Contract register: We noted in some cases significant contracts in the contract register were not supported by sufficient evidence to support the values. We also noted that sub sections of the same contract were recorded in the register at full contract value. We have discussed this with the management and noted that this is due to incorrect data input. The Council need to ensure there are adequate procedure notes to ensure data is entered consistently and reviewed regularly to ensure the contract register is accurate and complete.

Recommendation: Ensure the values of the contracts in contract register are correct and supported. Ensure contracts are not duplicated in the contract register. Ensure that the contract register receives a thorough review to ensure all contract amounts are correct.

Management Response: The Council has implemented a new Corporate Contracts system and is reviewing all contracts as part of this work.

Payroll – Starters: During the audit we noted 2 out of 20 of the new starters were underpaid or overpaid on input into the system. Internal processes subsequently identified the issue which was rectified. We also noted 1 out of 20 where the start date as per the starter contract was different from the actual start date due to which employee was incorrectly paid.

Recommendation: The Council should ensure that all starters are input correctly into the system and therefore paid correctly. This includes correct start dates.

Management Response: We have implemented a new recruitment system in January 2021, which will prevent inputting errors when adding new staff data onto the payroll system. Control measures have been put in place with high level Head of Service monthly meetings between MKC and NCC where any transactional and payroll issues are raised, discussed and rectified.

Financial controls

Property, Plant & Equipment – Council Dwellings: During the course of the audit, we noted that the Buckland Lodge (Land which is a part of council dwellings) was sent to Valuers as at Year end for valuations. The valuers did not include the asset in their valuation report. As part of the audit we challenged the omission and an amendment to the asset value has been made. The Council did not challenge the omission with the valuers.

Recommendation: The Council should do a thorough review of the valuation report by the valuers to ensure that all assets sent for valuation are assessed by the valuers.

Management Response: Time has been added to the closedown timetable to allow more time to complete a thorough review of Valuations provided by our external Valuers. A review is also being undertaken of the information supplied to the External Valuers upfront to reduce any confusion and that the correct information is supplied to the Valuers in the first instance.

Capital Loans – Accounting for Loan repayments The Council's control environment did not prevent or detect a material error arising in relation to the repayment of capital loans. At the end of 2019/20 the Council converted its loan to the Milton Keynes Development Partnership from capital to revenue. The Council failed to recognise the £30 million notional capital receipt arising from this transaction and the application of the capital receipt to finance the related outstanding Capital Financing Requirement in respect of the loan. The CFR as at 31 March 2020 was overstated by £28.561 million.

Recommendation: Log the accounting treatment of capital loan repayments for future reference, including where loans are converted from capital to revenue.

Management Response: When the loan was changed to cashflow rather than a capital loan we recognise that the Council did not amend the CFR. The Council currently does not have any capital loans, however should any new capital loans be issued, these will be logged to ensure the correct accounting treatment is applied

NDR Appeals Provision – Control Deficiency

The original 20/21 Provision was assessed in May 2021, whilst there is 12 months more information available it is apparent there was a weakness in the Council's control process to ensure a reasonable provision was made. The Council must ensure they have sufficient skills and knowledge to make a reasonable provision for NDR and seek external support as required to obtain the required information to do this.

Management Response: The recommendation has been implemented and external advice sought.

08 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that are due to us for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work.

Independence

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

Description	Proposed Fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	135,338	135,338	135,338
*Group	4,825		7,020
*Covid-19	TBC		6,921
*Audit Delays – including difficulties with transaction listings and other delays	TBC		13,182
*2019/20 Additional Work – including EFA restatement, VFM conclusion 2018/19 follow up, review of Hillier Hopkins files, CCLA PYA, Recycling centre revaluation and PYA, significant and other risks including Capital Expenditure, PPE Valuations and Pensions	TBC		30,425
2020/21 Additional Work	TBC		
ISA 540 Accounting estimates requirements	TBC	4,000-6,000	
New VFM Requirements	TBC	10,000-19,000	
Total Audit Fee	TBC – Note 2	135,338	192,885

All fees exclude VAT

(1) For 2019/20, the scale fee was impacted by a range of factors which resulted in additional work. We set out an estimate of the potential additional fee for this below.

(2) The following slides set out the factors impacting on additional fees in the 2020/21 financial year.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Milton Keynes Council the extent of audit procedures now required mean it will take approximately 2,500 hours to complete a quality audit. Your scale fee is £135,388 and our current estimate is a final fee of c£250,000. For 2019/20 PSAA determined an additional fee of £57,547 which is reflected on the previous slide.

Summary of key factors

1. Status of sector. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

   - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. Audit of estimates. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

   - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions, use of our internal specialists and increased correspondence with external specialists.

3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics:

   - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

   - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees (continued)

Summary of key factors (cont'd)

4. As a result public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

EY UK 2021 Transparency Report | EY UK

09 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

- All balances have been tested substantively – there have been no changes to the approach from the prior year.

Appendix B

Summary of communications

Date	Nature	Summary
3 November 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with Hillier Hopkins to discuss the audit of Milton Keynes Development Partnership and the Group Instructions.
8 November 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss the Audit Plan to be shared with Audit Committee in November and discuss the Council's forward financial plans.
26 November 2021	Report	The draft audit planning report, including confirmation of independence, was shared with the Audit Committee by email.
14 December 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit senior members of the management team to discuss the status of the audit and plans to complete in early 2022.
20 January 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit senior members of the management team to discuss the status of the audit, including the MRP review and draft Audit Results Reporting to the Committee.
2 February 2022	Report	The draft audit results report, including confirmation of independence, was presented to the audit committee.
14 April 2022	Meeting	The partner in charge of the engagement, along with senior members of the finance and audit team met to discuss updates on Post Balance Sheet Events impacting on Calverton. It was agreed NDR and MRP outstanding elements were substantially complete and amendments agreed. The national issue arising in respect of infrastructure assets was discussed an agreement to await further progress on the consultation.
9 August 2022	Meeting	The partner in charge of the engagement, along with senior members of the finance and audit team met to discuss infrastructure assets and qualification of the balance to conclude the 20/21 audit.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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 audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 26 November 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report 26 November 2021
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	Audit results report 2 February 2022 Update: September 2022

Appendix C

		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 related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	Audit results report 2 February 2022 Update: September 2022
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report 2 February 2022 Update: September 2022
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report 2 February 2022 Update: September 2022

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, 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 Audit Committee responsibility.	Audit results report 2 February 2022 Update: September 2022
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report 2 February 2022 Update: September 2022
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	Audit results report 2 February 2022 Update: September 2022

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report 2 February 2022 Update: September 2022
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 audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report 2 February 2022 Update: September 2022

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report 2 February 2022 Update: September 2022
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit results report 2 February 2022 Update: September 2022
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	Audit results report 2 February 2022 Update: September 2022
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	Audit results report 2 February 2022 Update: September 2022
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report 2 February 2022 Update: September 2022

Appendix D

Draft Management representation letter

Management Rep Letter

[Date]

Ernst & Young

400 Capability Green

Luton

LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and [council] financial statements of Milton Keynes Council (“the Group and Council”) for the year ended 31 March 2021. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Milton Keynes Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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:

Appendix D

Draft Management representation letter

Management Rep Letter

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, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2020/21 for the Group *and Council* that are free from material misstatement, whether due to fraud or error We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. *[When there are unadjusted audit differences in the current year or we determine that the current year effects of correcting prior year differences are significant. See Note B].* 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 consolidated and [council] financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

   [When there are no unadjusted audit differences in either the current year or in the prior year or there are no unadjusted audit differences in the current year and we determine that the current year effects of correcting prior year differences are not significant to the current year.]. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

Draft Management representation letter

Management Rep Letter

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

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

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or 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 consolidated or 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 Group or 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.

Appendix D

Draft Management representation letter

Management Rep Letter

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 [all material transactions, events and conditions] are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Group, 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 on the following date: *[list date] and 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 on the following date: *[list date].* We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and council financial statements.

4. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance within the applicable financial reporting framework.

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

6. From the date of our last management representation letter on 19 July 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Draft Management representation letter

Management Rep Letter

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 consolidated and council 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 to litigation and claims, both actual and contingent, and have disclosed in Note 30 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. The Accounting Policies a) General Principles to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 9 to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

Draft Management representation letter

Management Rep Letter

H. Other information

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

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

I. Ownership of Assets

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 *Leases*, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

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

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

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

J. Reserves

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

Draft Management representation letter

Management Rep Letter

K. Contingent Liabilities

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

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

- Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

L. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment valuation, the valuation of the IAS 19 pension actuarial liabilities and NDR Appeals Provisions and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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.

M. Estimates

Valuation of Property, Plant and Equipment and Investment Property (including recycling centre)

1.We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

2. We confirm that the significant assumptions used in the valuation of property, plant and equipment appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

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

Draft Management representation letter

Management Rep Letter

Valuation of IAS 19 Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

2. 2. We confirm that the significant assumptions used in the valuation of IAS19 pension liabilities appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

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

N. 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.

Yours faithfully,

____

Director of Finance and Resources

____

Chairman of the Audit Committee

Appendix E

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: • Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. • Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases • Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council needs to agree on certain policy choices. In particular: • Whether to adopt a portfolio approach • What low value threshold to set and agree with auditors • Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components • What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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