

# Melton Borough Council

Annual Audit Letter for the year  
ended 31 March 2020

July 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

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

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Melton Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
<b>Impact on the delivery of the audit</b>	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.
<b>Impact on our risk assessment</b>	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
<b>Impact on the scope of our audit</b>	
▶ 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: <ul style="list-style-type: none"><li>▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li><li>▶ Agree IPE to scanned documents or other system screenshots.</li></ul>
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

# Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 February 2021. We wrote to the Audit and Standards Committee on 30 July 2021 to communicate the outcome of matters identified as outstanding in the February Audit Results Report.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 July 2021

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

Helen Henshaw  
Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities



# Purpose

## The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 9 March 2021 Audit and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

# Responsibilities

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the updated Audit Plan that we issued on 8 July 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2019/20 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

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

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

Section 3

# Financial Statement Audit



# Financial Statement Audit

## Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 July 2021.

Our detailed findings were reported to the 9 March 2021 Audit and Standards Committee.

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

Significant Risk	Conclusion
<b>Misstatements due to fraud or error</b> The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in auditing standard 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.	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We have not identified any issues from our review of journals.</p>
<b>Covid-19 Impact</b> We consider there is a risk that expenditure relating to Covid-19 could be incorrectly classified to attract additional government funding.	<p>The Council has one Covid-19 cost centre that included expenditure of £18k, which is not material and as this is below our reporting threshold no additional work is required or completed.</p>

# Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Under auditing standards there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition</p> <p>As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.</p> <p><b>Covid-19 Impact:</b></p> <p>We consider there is a risk that expenditure relating to Covid-19 could be incorrectly classified to attract additional government funding.</p>	<p>Our testing has not identified any material misstatements in relation to the incorrect capitalisation of revenue expenditure.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p> <p>The Council has one Covid-19 cost centre for the year ended 31 March 2020 that included expenditure of £18k, which is not material and as this is below our reporting threshold no additional work is required or completed.</p>

# Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p><b>Valuation of land and buildings</b></p> <p>The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p><b>Covid-19 Impact:</b></p> <p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.</p>	<p>We engaged the support of our EY Real Estates ("EYRE") specialists to review in detail a sample of the Council's assets which had been revalued in the year.</p> <p>A number of issues arose as a result of our procedures, as set out below.</p> <p><b>Car park valuations:</b></p> <p>The Council has a number of public car parks where the valuation is based on the income received. The Council provided the valuer with income figures for each car park, but these were gross rather than net (i.e. did not take into account the costs involved in running those car parks). This resulted in the value of the car parks being overstated by £1.052m in the year ended 31 March 2020. We also observed that in prior years the same erroneous approach had been taken. Given the size of the overvaluation, management have recorded a prior period adjustment in the financial statements to correct the valuation of the carparks in the prior period. The value of the adjustment was £1.194m at 31 March 2019.</p> <p><b>Cattle Market - Land value:</b></p> <p>The Council's valuer had used £82,500 pre acre to value the Land at the Cattle Market. We consider that value per acre to be incredibly low and is significantly below even industrial land values in the area. We considered that the (relatively conservative) VOA industrial land value in Melton Mowbray of c. £182,000 per acre would be a more reasonable assumption. Using the £182,000 per acre resulted in an uplift in the valuation of the land of £1.431m. The Council have amended the financial statements to adjust this valuation. The prior period valuation has not been amended because unlike the car parks difference noted above, this is considered to be a change in estimate as opposed to an error in the valuation. Changes in estimate are reflected in the current year financial statements.</p> <p><b>Cattle Market - Market Hall:</b></p> <p>We compared the assumed build costs in the Council's valuation with BCIS build costs. This resulted in an undervaluation of £360k. Management have not corrected this undervaluation in the financial statements.</p>

# Financial Statement Audit (cont'd)

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

## Significant Risk (continued)

### Valuation of land and buildings (continued)

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

### Covid-19 Impact:

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.

## Conclusion (continued)

### Play area valuations:

We reviewed in detail the valuations of the following 4 assets:

Sunnybrook play area  
Kirby Lane play area  
Scalford Brook play area  
Skate Park

The Skate Park was supportable. The calculations on the other three were not. We have calculated the individual valuation differences and then extrapolated that over the remaining play areas. This gave rise to a calculated (judgemental) overstatement in value of £222k. Management have not corrected this undervaluation in the financial statements.

### Misclassification of assets as 'Council Dwellings':

We noted that there were several assets listed within the Council Dwellings category which were not in fact Council Dwellings. These totalled £2.764m. Management have adjusted the 2019-20 financial statements to reclassify these assets correctly. An amendment was not made to the prior year disclosures as this was not considered to be material to the reader of the financial statements as it was a balance sheet note reclassification only, with no impact on the primary statements.

# Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension liability valuation	<p>The assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. Our testing has not identified any material misstatements but the following matters have arisen:</p>
	<p><i>McCloud</i></p>
	<p>Last year, the government's appeal in relation to the age discrimination present in public sector schemes was ruled against in the High Court. Consequently, some members of the pension schemes need to be compensated with higher benefits. On 21 July 2020, a consultation document was released which provided further details on how benefits would be changed to remove the age discrimination. Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation, which showed movement on the pension liability of £102k. Since the amount is immaterial, it has not been adjusted in the financial statements.</p>
	<p><i>Goodwin</i></p>
	<p>Goodwin is another discrimination case, originating within the Teacher's Pension scheme. Brought by Mrs Linda Goodwin (the Claimant), the ruling is that a widower or surviving male civil partner of the Claimant shall be entitled to the same pension as he would if he were a widow or surviving female civil partner of the Claimant. Management did not request that the Actuary re-run the liability calculations adjusting for the impact of the Goodwin ruling. We calculated the impact to be an additional £108k past service cost. Since the amount is immaterial, it has not been adjusted in the financial statements, but will be picked up in the 20/21 valuation.</p>
Going Concern	<p>In light of the global C-19 pandemic, Management have considered the additional cash flow and cost/income implications over the 12 months beyond the expected accounts approval date (i.e., out to July 2022). We note that the Council does not maintain a cash flow forecast projecting forward at least 12 months. The council should put in place arrangements to ensure that it is maintained and monitored to ensure that it has sufficient resources to meet liabilities as they fall due and to demonstrate the appropriateness of the going concern basis of accounting when drawing up the financial statements. Based on our review of management's assessment and consideration of cash/liquidity throughout the period to 31 July 2022 and the available reserves, we conclude that the going concern basis of accounting in the production of the 31 March 2020 financial statement is appropriate.</p>

# Financial Statement Audit (cont'd)

## Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £543k (2019: £541k), which is 2% of gross revenue expenditure reported in the draft accounts of £27 million.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit and Standards Committee that we would report to the Committee all audit differences in excess of £27k (2019: £27k)</p>

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

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits;
- ▶ Related party transactions.

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

Section 4

# Value for Money



# Value for Money

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

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

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified 2 significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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



# Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 30 July 2021.

Significant Risk	Conclusion
<p data-bbox="125 451 801 523"><b>Compliance with Landlords' Health and Safety Regulations</b></p> <p data-bbox="125 579 801 962">During the year an internal audit assignment was undertaken and a key finding of this audit was the historical weaknesses in data collection, retention, management and application in decision making process related to property safety. The audit highlighted that historically the issues arising from fire risk assessments, electrical inspections and asbestos surveys have not been feeding into work plans. Therefore, where observations were recorded and recommendations made as a result of the inspections, these had not been suitably recorded and/or monitored to ensure the issues were promptly rectified.</p> <p data-bbox="125 970 801 1088">The report notes that urgent action is required to address the risk of the negative impact on Council's reputation, finances and more importantly the safety of tenants, visitors and Council staff.</p>	<p data-bbox="813 451 2107 555">We reviewed progress to date in management implementing the recommendations from internal audit and agreeing actions going forward. We are satisfied that the Council has procedures in place to respond to the matters raised in the internal audit report.</p> <p data-bbox="813 579 2107 619">Our review has not identified any significant matters that we wish to report to you.</p>

# Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Securing financial resilience</b></p> <p>In common with many other local authorities, the Council is facing significant pressures in the medium term. The Council is predicting a modest overspend for 2019/20, and forecasting deficits in the MTFs over future periods as follows:</p> <ul style="list-style-type: none"><li>• 2021/22 - £87k</li><li>• 2022/23 - £296k</li><li>• 2023/24 - £631k</li></ul> <p>Additionally, whilst the Council has been working to address the comparatively rapid use of reserves in recent years, CIPFA's Financial Resilience Index reflects Melton as a higher risk in respect of the level and historic usage of reserves.</p>	<p>We have concluded that the Council has adequate financial management arrangements in place, the financial challenges facing the Council are significant, particularly as it is operating within a financially challenged system together with the impact of Covid-19. The Council needs to ensure that financial assumptions are updated continuously to reflect the challenging environment. Our review of assumptions used in financial planning has not identified any significant matters that we wish to report to you.</p>
<p><b>VFM update</b></p> <p>As part of our procedures, we have continued to evaluate the position of the council; part of the evaluation has included a review of the latest Medium Term Financial Strategy for 2021-22 to 2024-25, the following are forecasts extracted from the strategy:</p> <ul style="list-style-type: none"><li>• 2021/22 - £0k breakeven position</li></ul>	<ul style="list-style-type: none"><li>• 2022/23 - £847k surplus</li><li>• 2023/24 - £896k surplus</li><li>• 2024/25 £1,250k surplus</li></ul> <p>When considering our review of the council, we have not identified any events or transactions that would impact on the VFM conclusion reported in February 2021.</p>
<p><b>Other observations</b></p> <p><b>Melton Southern Bypass</b></p> <p>During the course of our work we were alerted to public difficulties with the relationship with Leicestershire County Council (LCC) in relation to the Melton Southern Bypass scheme. As a result we carried out additional work to investigate whether this gives rise to an additional significant risk to our VFM conclusion in respect of the criteria of informed decision making (specifically the consultation process which had been accused of lacking legality) and working effectively with others.</p>	<p><b>Conclusion</b></p> <p>We reviewed documentation relating to interactions between the Council and LCC in respect of this matter. We reviewed the legal advice obtained by management as to the adequacy, fairness, and legality of the consultation process; and we discussed the matter with management including the Chief Executive, Director for Governance and Regulatory Services (Monitoring Officer) and Director for Growth and Regeneration.</p> <p>We concluded that this did not create a significant risk to our Value for Money conclusion.</p>

A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## **Whole of Government Accounts**

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

## **Annual Governance Statement**

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

We completed this work and identified a number of small minor areas where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include these areas.

## **Report in the Public Interest**

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

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

## **Written Recommendations**

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

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

# Other Reporting Issues (cont'd)

## Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

## Other Powers and Duties

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

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 9 March 2021. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

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

### Description

Since 2018/19 the Council should have been able to demonstrate application of the expected credit loss model required by IFRS 9. We recommend that the Council address this issue

The Council has relied heavily on one member of staff in respect of the accounting for the Collection Fund, including the Bad Debt Provisions and Business Rates Appeals Provision. In the absence of that staff member during our audit, the Council were not able to respond adequately to our queries and request for support. The council should ensure that resources with expertise are in place to ensure that reliance is not placed solely on one individual for key accounting areas.

In our reporting of Going Concern, we identified that the Council does not maintain a cash flow forecast projecting forward at least 12 months. The council should put in place arrangements to ensure that it is maintained and monitored to ensure that it is sufficiently liquid that it can meet it's obligations as they fall due.

We have highlighted over a number of years in our reporting that the Council is not able to demonstrate that the percentages used in calculating its Bad Debt Provisions are consistent with its actual performance. Whilst this was addressed in respect of Council Tax and Business Rates in 2017/18, for other debts (sundry debtors and housing rents) the basis of calculation has not been substantiated.

Section 6

# Focused on your future



# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>However in response to the ongoing pandemic and its pressures on council finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022.</p> <p>CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.</p> <p>The announcement is available on CIPFA's website.</p>	<p>There are transitional arrangements within the standard. The 2021/22 Code includes an appendix on the future implementation of the IFRS 16 Leases standard which has been deferred for a further year. The appendix sets out the anticipated provisions in the 2022/23 Code and it will allow local authority accounts preparers to make effective preparations for the implementation of the standard in the 2022/23 financial year. Note that early adoption of IFRS 16 is not permitted</p> <p>What is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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