

# *Melton Borough Council*

*Annual Audit Letter*

2014/15

Government and  
Public Sector

October 2015

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Governance Committee in the following reports:

- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

## Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan we issued in February 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

| Audit Responsibility   | Results   |
|--|---|
| Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).                     | <p>We completed an audit of the Authority's statutory accounts for the year ending 31 March 2015.</p> <p>We issued an unqualified audit opinion on the statutory accounts on 29 September 2015.</p>   |
| Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. | <p>Melton Borough Council's income, expenditure, assets or liabilities did not exceed £350 million.</p> <p>In line with the Audit Commission's guidance, no detailed testing was performed over the Whole of Government Accounts Consolidation Pack.</p>  |
| Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.                 | <p>The Audit Commission guidance includes two criteria relating to the value for money conclusion:</p> <ul style="list-style-type: none"> <li>• the organisation has proper arrangements in place for securing financial resilience; and</li> <li>• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul> <p>We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.</p> <p>We issued an unqualified value for money conclusion.</p> |

| Audit Responsibility   | Results   |
|--|---|
| <p>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</p> | <p>Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.</p> <p>We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.</p> <p>We found no areas of concern to report in this context.</p> |
| <p>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</p>  | <p>No matters arose during our audit that would require us to produce a public interest report.</p>   |
| <p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</p>  | <p>No other actions were required to be taken in relation to our responsibilities under the Audit Commission Act.</p>   |

| Audit Responsibility  | Results  |
|---|--|
| <p>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</p> | <p>We issued a completion certificate with the unqualified audit opinion on 29 September 2015.</p> |

# Audit Findings

## Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 29<sup>th</sup> September 2015.

Our Report to Those Charged with Governance (ISA (UK&I) 260) was presented to the Governance Committee on 28 September 2015. We wish to draw the following points, included in that report, to your attention in this letter:

- The Authority prepared its accounts on a timely basis and there were minimal presentational or consistency issues identified in our review.
- We did not identify any significant issues with respect to the effectiveness of the Authority's internal controls.
- We reviewed the reasonableness of the assumptions underlying the pension liability of the Authority's Local Government Pension Scheme and concluded that we were comfortable with the assumptions adopted.
- We reported on two accounting issues relating to the valuation of the Authority's land and buildings.
  - Inaccurate inputs (floor areas) had been used to calculate the value of some of the assets valued at depreciated replacement cost (DRC). We also found the methodology used to value these assets had not been applied correctly. To correct the errors identified, the Council increased the value of its DRC assets by £336,614.

- The income figures used to value the Council's car parks were from 2013/14. By applying the car park income received in 2014/15, the value of the car parks increased by £292,788.

The Authority corrected its financial statements for both errors described above.

## Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We reviewed the assumptions behind the Authority's Medium Term Financial Plan and savings plans and found

that the Authority has incorporated its identified savings in its MTFP. These savings mean the plan shows a balanced budget will be set in 2015/16 and 2016/17.

The Authority now needs to consider longer term savings and income generating activities to set a balanced budget from 2017/18 onwards.

### *Annual Governance Statement*

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National Audit Office. The audited pack was submitted on 1 October 2015. We found no areas of concern to report in this context.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance in February 2015. We certified 2 claims worth £9.5 million.

We issued one qualification letter relating to the Authority's Housing Benefits Scheme. Our testing identified a number of errors in relation to the Authority's compliance with Housing Benefit regulations.

These matters had no material impact on the level of subsidy claimed by the Authority.

We will issue the Annual Certification Report for 2014/15 in November 2015.

# Other matters reported to those charged with governance

The following control weaknesses were reported in our ISA 260 report to the Governance Committee:

| Deficiency  | Recommendation   | Management's response |
|---|--|-----------------------|
| <p><b>Contract Register Completeness</b></p> <p>We reviewed the top 20 suppliers and verified that, where the expenditure was based on a contract, the contract appeared on the contract register.</p> <p>This testing identified nine instances where a contract was expected but did not appear on the contract register.</p>   | <p>The contract register should be reviewed to ensure it provides a comprehensive list of all contracts held</p>   | <p>Agreed</p>         |
| <p><b>Related Party Transactions</b></p> <p>Two entities were identified as related parties that had not been disclosed by Councillors on their declaration forms. Testing of these entities identified transactions had arisen between the entities and the Authority. Expenditure of £24,140.83 occurred with Melton Learning Hub and £6,137 occurred with Melton Mencap.</p>   | <p>The Authority should perform checks to validate the completeness of the disclosures made by the Councillors. This will support the previous year recommendation to remind Councillors of the importance of providing a complete listing of all related parties.</p> | <p>Agreed</p>         |
| <p><b>Property, Plant, and Equipment (PPE) Valuation Supporting Documentation</b></p> <p>When agreeing PPE valuations to input data, we experienced difficulties in agreeing input data in the valuation reports</p> <p>This arose for a number of reasons including:</p> <ul style="list-style-type: none"> <li>- Site plans are not maintained in a central location.</li> <li>- Inputs into calculations are rolled forward from previous valuations without validation.</li> <li>- Valuer judgements are used in the calculations without a formal calculation to validate the percentage being applied.</li> </ul> | <p>Valuation sheets should be supported by a complete audit that demonstrates how each input has been calculated.</p>  | <p>Agreed</p>         |

**Property, Plant, and Equipment (PPE) Valuation Methodology**

Our internal valuation team performed a review of the valuation methodology applied by your internal valuer. It was noted that:

- The valuation methodology used by the internal valuer makes reference to outdated valuation standards.
- The discount factor applied to social housing was not subject to review before applying in the valuation calculation.

The valuations performed should reference the latest methodology to ensure that the most up-to-date methods are applied.

The valuation approach should also include annually reviewing key inputs into the calculation, such as the social housing discount factor, to establish if local factors would prevent the national index being accurately applied.

Agreed



*We set out here our final fees for the audit.*

## ***Final Fees***

### ***Final Fees for 2014/15***

We reported our fee proposals in our audit plan.

Our actual fees were in line with our proposals at £57,558.

Our fee for the certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in November 2015 within the 2014/15 Annual Certification Report.

|   | 2014/15<br>outturn | 2014/15<br>fee<br>proposal | 2013/14<br>final<br>outturn |
|---|--------------------|----------------------------|-----------------------------|
| <b>Audit work performed under the Code of Audit Practice</b>  | 57,558             | 57,558                     | 56,658                      |
| - Statement of Accounts   |                    |                            |                             |
| - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources |                    |                            |                             |
| - Whole of Government Accounts  |                    |                            |                             |
| <b>Certification of Claims and Returns</b>  | TBC                | 18,460                     | 20,522                      |
| <b>TOTAL</b>  | <b>TBC</b>         | <b>76,018</b>              | <b>77,180</b>               |



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