www.pwc.co.uk

Melton Borough Council

Report to those charged with governance

Report to the Governance Committee on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2015

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 management 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.

Contents

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in March 2015; since then, we identified a further significant risk around the valuation of the Authority's property, plant and equipment. The detail behind this risk is discussed in the *Audit Approach* section below.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts by 30 September 2015.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- approval of the Statement of Accounts and letters of representation after approval by the Authority; and
- completion procedures including subsequent events review.

We look forward to discussing our report with you on the 28 September 2015. Attending the meeting from PwC will be Ben Connor and Thomas Hann.

Audit approach

Our audit approach was set in our audit plan which we presented to you in February 2015. Since presenting this plan to you, we identified a further significant risk on the Authority's valuation of its property, plant and equipment. We included this additional risk because this is the largest balance on your balance sheet which makes the risk of a material error more likely and because it is an estimated balance based on judgement, the review of key assumptions used in the valuation requires increased scrutiny and challenge.

We have summarised below all the significant risks we identified during our audit, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	● Significant	We considered areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We performed procedures to: • review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as: journals that affect the reported year-end position; journals posting balances between the balance sheet and income statement; and journals that were posted during weekends or bank holidays. • review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable. We also used PwC's experts to provide further assurance over the Authority's approach to the valuation of its property, plant and equipment and the appropriateness of the assumptions used to derive the pensions liability. • evaluate the business rationale underlying significant transactions outside the normal course of business; and • perform unpredictable procedures targeted on fraud risks. This included detailed testing on tender waivers and the completeness of the contract register.	No instances of management override of controls were identified as a result of our work. Control deficiencies have been identified and reported as part of the Internal Controls section below.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are equally likely to present themselves through manipulation of expenditure in the public sector.	● Significant	We performed the following procedures: • we understood, evaluated and tested key income and expenditure controls; • we evaluated the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting; • we tested the appropriateness of journal entries and other adjustments. Testing focused on journals posting balances between the balance sheet and income statement, which will impact the reported performance. Our testing was supported by our HALO software that enabled the identification of journals with a material net impact on the income statement to be identified from all journal entries posted in year; • we tested sundry expenditure transactions to a higher level of assurance to ensure they were recorded in the correct financial period; • we performed cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period; and • we reviewed accounting estimates for income and expenditure, for example, accruals, provisions, and deferred income. Testing included a sample of immaterial balances to address the heightened risk of fraud.	No misstatements were noted as a result of these procedures.

Risk	Categorisation	Audit approach	Results of work performed
Property, Plant and Equipment Valuation Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of external experts. Specific areas of risk for 2014/15 include: • asset valuation input data may be inaccurate or incomplete; and • valuation assumptions used may not be appropriate.	● Significant	We reviewed the basis of asset revaluations undertaken and in doing so considered: • the judgements, assumptions and data used; • the reasonableness of estimation techniques applied; and • the expertise of your valuation experts. We reviewed the accounting entries made to recognise the valuation changes in the accounts.	Two misstatements have been identified. Both are driven by errors in the input data that have been used in the calculation of asset valuations. The misstatements total £629,402. Further detail has been included in the Accounting Issues section below. Control deficiencies have been identified and reported as part of the Internal Controls section below.

Risk	Categorisation	Audit approach	Results of work performed
Meeting the financial challenge All local government organisations are faced with increased challenges in their medium term financial outlook. There continues to be a number of risks to the delivery of the plan, particularly in respect of: • national changes- new arrangements in relation to Council Tax Benefits and NNDR will have an impact on the Authority's financial plans; • the Authority's plans to participate in the pilot scheme for the introduction of the Universal Credit, as part of the DWP's benefit reforms. • slippage- the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies; • timing- the timing of planned savings, service reductions and funding announcements may impact delivery against the Comprehensive spending review targets; • assumptions- significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan. There is also a risk of deteriorating operational performance and quality due to reduced resources and management capacity where cost savings are made without careful consideration.	● Elevated	We considered: • the impact of the reductions in funding for the Authority; • retention of business rates and the impact on the Authority's financial position; • the Authority's intentions to not take advantage of the Council Tax Freeze Grant; • the governance structure in place to deliver the targets; • project management arrangements; • monitoring and reporting; progress on delivering the plan; and • how the assumptions applied in the Authority's plan compared with other organisations. We also considered any relevant accounting assumptions and whether they were realistic and reasonable.	Based on the work undertaken we expect to issue an unqualified value for money conclusion.

Intelligent scoping

In our audit plan presented to you in February 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality was updated on receipt of the draft accounts but this did not impact on our audit approach. Our revised materiality levels were as follows

	£
Overall materiality	£532,600
Clearly trivial reporting de minimis	£30,000

Overall materiality has been set at 2% of gross expenditure (cost of services) for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Governance Committee at its meeting in February 2015.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to outstanding matters set out in page 1.

Once these matters are satisfactorily completed, we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Audit scorecard

The scorecard below summarises our view of your accounts and audit performance.

Key

R Red – significant improvements required

A Amber – some improvements required

G Green – no or some minor improvements required

	2013/ 2014	2014/ 2015	Comments
Quality of accounts and working papers	G	G	The Authority prepared its accounts on a timely basis and a first draft of the accounts was available at the start of the audit. Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit. Working papers were available for audit on time and were of a good standard.

Readiness for start of audit and availability and responsiveness of staff	G	G	Key staff were available during the audit to address any audit queries and the Finance Team responded positively to any audit questions and requests for information. Staff availability for the audit period was communicated in advance of the audit commencing. However, some minor delays were incurred due to staff working remotely which was not included on the availability matrix.
Significant audit and accounting issues	G	A	Two audit adjustments totalling £629,402 arose during our work, however management agreed to correct for these. These are explained in detail later in this report.
Deficiencies in internal control systems	G	G	We identified some minor control weaknesses during the course of our work. These are considered in more detail on page 20. The weaknesses identified were not significant enough to require a change in our audit approach.
Value for Money conclusion	G	G	We have identified no improvements required. We expect to issue an unqualified opinion.

Accounting issues

Depreciated Replacement Cost (DRC) Assets

Assets at MBC are subject to an annual revaluation performed by the Authority's internal valuer. This ensures that the carrying amount is not materially different to the asset's Existing Use Value (EUV).

A number of the MBC assets are valued on the basis of Depreciated Replacement Cost (DRC) due to their specialised nature that results in them not being frequently traded in an open market.

The DRC method of valuation has three key inputs namely the gross replacement cost (GRC), the obsolescence adjustments and the underlying land value. The GRC is a product of the Gross Internal Floor Area (GIA) multiplied by an indexation amount per square metre.

We tested the Waterfield Leisure Centre (WLC) as part of our audit sample. It was identified that the GIA used by the internal valuer was 2175m2. This compared to a value of 2500m2 included in an insurance report produced by Gleeds on behalf of the Authority.

We were provided with an explanation for the difference in floor area from the Authority's internal valuer who explained this was due to the inclusion of the pool tank within the insurance report. The Authority could not provide any supporting documentation to validate this explanation.

PwC's internal valuation team reviewed the methodology used in the WLC calculation. The review found:

- no obsolescence adjustment had been applied; and
- the land value was apportioned out of the replacement cost of the building rather than being added to the replacement cost.

We considered whether the above issues were prevalent across the remaining assets valued on a DRC basis. Our testing of The Cove and The Edge Children Centres confirmed that the errors in GIA and DRC methodology were also present in their valuation.

These findings were discussed with the Section 151 officer and it was agreed that the Authority's valuer would re-perform valuation calculations and area measurements to ensure the values were accurate.

This work was completed by the Authority's internal valuer. We were subsequently provided with details of the calculations performed and copies of the site plans that reconcile to the GIA used in the calculations. This has resulted in the value of these assets increasing by £336,614.

Car Park Valuations

The seven car parks owned by the Authority are subject to an annual revaluation to their EUV. The EUV for the car parks are estimated by establishing the annual income for the car parks and multiplying by a yield percentage.

Our internal valuations team has reviewed the calculations for valuing the car parks and concluded that the methodology used is appropriate.

We also tested a sample of annual income figures used for the car parks and identified that the valuation of the car parks assumed a total income of £375,000 per annum. This compared to actual income for 2014/15 of approximately £400,000 per annum.

This was discussed with the internal valuation team who noted that the income was based on 2013/14 totals, as valuations were performed before the 2014/15 year end. However, the valuation is dated 31 March 2015 and should therefore have taken into account the most up-to-date information available.

We extended our testing to include all seven car parks. The total income assumed in the valuation calculations was £530,910. This compared to actual income for 2014/15 of approximately £552,000.

A re-performance of the valuation calculations indicates that the assets have been undervalued by £292,788.

The Authority has amended its financial statements for both of the adjustments described above. The impact on the general fund and net assets of the Council of these adjustments has been an increase in the net assets of the Authority of £629,402. There has been no impact on the Authority's General Fund.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of property, plant and equipment (PPE)

Property, Plant and Equipment is the largest figure on your Balance Sheet valued at £89,783,000 at 31 March 2015.

In accordance with your accounting policies, to ensure that the carrying value of property, plant and equipment reflects its fair value, your housing stock and other land and buildings are revalued on an annual basis as at the 31 March.

This involves reliance on your internal valuer. To assess the appropriateness of the methodology and key inputs used, we consulted with our property valuation experts.

Social Housing

<u>Existing Use Value for Social Housing</u>

The housing assets have been valued to Fair Value on the basis of Existing Use Value - Social Housing (EUV-SH).

The Authority's internal valuer has used the comparable method of valuation assessing recent sales of similar properties and regional and national indices showing trends and changes in property values. A beacon approach was not used following a decision made several years back when the District Valuer was assisting with the valuations. The Beacon Groups that were being used at that time involved houses of different construction types, in different villages, some with amenities and some without. The Authority has a database of photos for each property and decided that given the extent of the housing stock, it was better to work through each property individually for Melton and village properties.

The internal valuer has used an adjustment factor of 34% to reflect the difference between private housing sector capital values and social housing capital values. The deductions used (34%) are those recommended by the DCLG (Department for Communities and Local Government) and therefore there is limited scope for valuer judgement. This is deemed to be in accordance with the Government guidance and is an appropriate method which we have seen adopted by several other local authorities and valuers. However, consideration should be given to local factors, such as significant refurbishment, that may mean the value of social housing is closer to private rental amounts. This has been included within the Internal Control deficiencies section below.

The valuation of council dwellings as at 31 March 2015 was £71,068m which resulted from a significant net revaluation adjustment upwards of £5.474m.

The Authority's internal valuer has commented that indicators and discussions with local agents suggest there has been an increase in house values in the Borough of between 8% and 9% over the last 12 months. We have reviewed Knight Frank's UK Residential Market Forecast August 2015, which showed a forecast of 6% annual growth for the East Midlands in 2014 and a forecast of 3.5% annual growth for 2015. Savills reported annual growth in the East Midlands in the year to June 2014 of 4.3%. The increase in values in the Borough of 8-9%, reported by the Authority's internal valuer, are comparatively high, however, the growth levels reported in the aforementioned research papers take into account the growth in the whole of the East Midlands and consequently reflect average growth rates which may have been pulled down by property values in towns which are not seeing the same levels of growth as in Melton Borough. The value of the housing stock has increased by 10% overall from the previous year valuation, as there is a very high demand for ex local authority properties. This methodology is therefore considered reasonable by PwC's valuation experts.

A control weakness has been noted on page 20 to ensure that a complete audit trail is maintained to support the adjustments applied by the valuer.

Non - housing property valuation

Conversely, the revaluation of non-housing property resulted in a more modest net upwards movement of £0.5m in year. However, the market forces relating to the valuation of these assets do differ to social housing. A summary of the methodologies and key inputs used by the Authority are discussed below.

The non-housing assets have been classified into the following groups:

- Property, plant and equipment. Assets regarded as property, plant and equipment have been valued at Fair Value on the basis of Existing Use Value ("EUV") i.e. the amount that would be paid for the asset in its existing use, disregarding potential alternative uses but including any value attributable to any possibilities of extensions or further buildings on undeveloped land or redevelopment of existing buildings (for the purpose of the existing use) provided this would not disrupt the continuing business. For operational property, an estimate of the residual life has been provided. Where the Fair Value basis has been used, a Market Value figure to reflect potential alternative uses has also been provided in instances where Market Value is significantly different.
- Leases and lease type arrangements. The Valuer has determined whether leases constitute operating or finance leases.
- Investment property. These assets have been valued to Fair Value.

The following approaches have been adopted:

- Non-specialised assets: for properties where there is market based evidence to support the use of EUV to arrive at Fair Value the comparable method of valuation has been adopted. In this instance the total value has been apportioned between the residual amount (land) and depreciable amount (the buildings). Remaining life information has been provided for the building.
- Specialised assets: for properties where there is no market based evidence to support the use of EUV to arrive at Fair Value, the Depreciated Replacement Cost ("DRC") approach has been used. This is appropriate. DRC is defined as "the current cost of replacing an asset with its modern equivalent less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". It should be appreciated that DRC is not the same as market value and DRC is only applied when there is no active market for the assets.

A maximum period for useful life of 50 years has been adopted based on the Valuer's opinion that the economic life of a modern building is unlikely to exceed 50 years. We consider this to be within a reasonable range.

Base Data

We tested that the base data, namely gross internal floor areas, land hectares, rental values, and dwelling numbers and types was accurate by vouching to supporting documentation.

As we have set out in this report, we identified a number of issues regarding the data used in the calculations. Please see the 'Accounting Issues' section documented above for further details.

Pensions Liability

One of the most significant estimates in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Local Government Pension Scheme. Your net pension liability at 31 March 2015 was £21.7 million (2014 - £17.8 million).

We utilised the work of our actuarial experts to assess the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We also validated the data supplied to the pension fund's actuary on which to base their calculations.

We did not identify any matters to report arising from our work performed.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

In addition to standard representations we will ask management to make specific representations on the the use of the work of experts.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We verified related party relationships and transactions disclosed to declaration of interest forms, and to the General Ledger. Completeness checks were also carried out to ensure no undisclosed related parties existed. To undertake this, we performed checks on each Councillor and Senior Manager against external records, such as Companies House.

We identified the following matters during the course of our work:

- 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. Expenditure of £24,140.83 occurred with Melton Learning Hub and £6,137 occurred with Melton Mencap.

The above related parties have been updated by management and are now appropriately disclosed in the accounts.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority during the 2014/15 financial year amounting to a total value of £18,460. Details of this grant certification work were set out in our Audit Plan presented to you in February 2015.

Fees

The analysis of our audit and non-audit fees for the year ended 21 March 2015 is included on page 24. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is Public Sector Audit Appointments Limited's[1] policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. Public Sector Audit Appointments Limited's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Governance Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

[1] On the 31 March 2015 the Audit Commission was abolished and contracts were novated from the Audit Commission through to Public Sector Audit Appointments Limited.

Annual Governance Statement

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.

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. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Public Sector Audit Appointments Limited guidance includes two criteria:

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

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Targeted audit work – where relevant

Our value for money work in 2014/15 was performed on a risk based approach. The following section summarises the risks identified, work performed and the results of our work.

Reductions in government grant funding.

The Spending Review 2010 included plans to reduce central government revenue funding to local government by 26 per cent, On 20 March 2013, the Chancellor of the Exchequer announced in the Budget 2013 that local government funding would be reduced by a further 1 per cent in 2014/15, On 26 June 2013, the Chancellor announced the Spending Round 2013, which set the departmental settlements for 2015/16. This set out plans to reduce local government funding by a further 10 per cent in 2015/16.

The focus of our audit work was to assess the Authority's Medium Term Financial Strategy (MTFS) including the assumptions built in to the MTFS and whether savings plans to meet future budget shortfalls are realistic.

The Authority's MTFS takes into account the anticipated reductions in funding which were outlined in the spending review and subsequent spending round announcements.

Plans to address the reductions in income include both savings in expenditure, but also growth in income streams. Addressing the reductions in funding will be challenging but previous performance in this area is strong. The Authority has identified a number of savings (or income generating activities) over the next two years which have all been included in the MTFS, these include the following:

- Income from the Waterfield Leisure Centre is expected to grow by approximately £50,000 in 2015/16 and 2016/17 as a result of the recent refurbishment of the centre. The Authority has analysed the usage of the leisure centre, which has increased every year since 2011/12.

- The Welland Wheels to work project will also grow to generate an additional £80,000 of income in 2015/16.

- The Authority's New Homes Bonus income is forecast to increase from £846,900 in 2014/15 to £1,012,249 in 2016/17 and £1,107,493 in 2017/18.

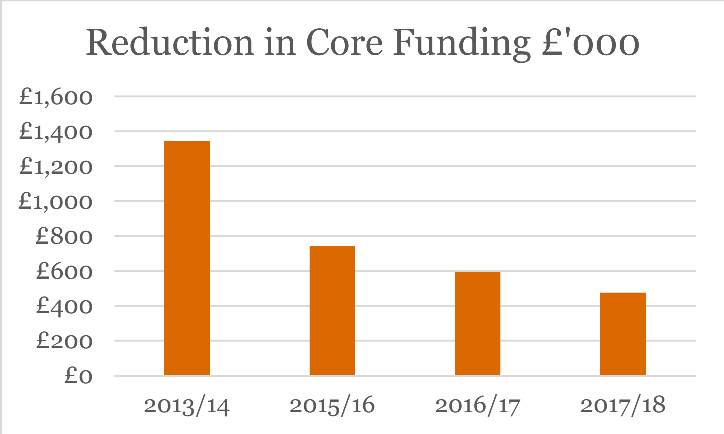
- Council tax increases are forecast at 1.9% per annum, which means income is forecast to grow to £2,854,359 in 2016/17 and £2,966,697 in 2017/18.

- Planning fees income is planned to continue increasing by £20,000 each year, with a saving on supplies of approximately £60,000 in 2015/16. The additional income received relates to both residential and commercial applications and the Authority is seeing an increase in solar farm applications.

- The outsourcing of the Council's IT service provision to a shared service with Hinckley and Bosworth Borough Council realised £55,000 of savings in 2015/16. This contract is due for renewal in 2016 where further savings are expected. IT savings will also be realised through replacement of old IT equipment and the use of a single datacentre for monitoring.

The Authority has incorporated the savings listed above, within its MTFS and this has enabled the Authority to forecast that a balanced budget will be achieved in 2015/16, with minor deficits in 2016/17 and 2017/18. The growth in the New Homes Bonus described above is a major factor in this achievement, but alongside this the Council has included the identified savings and income generation projects in its MTFS.

The following graph shows the reduction in the Authority's core funding over the next four years and through identified areas of revenue generation and savings, the Authority has successfully addressed this decrease in income.



Further savings schemes which the Authority is also planning to implement include:

- The Authority's transformation programme is looking to redesign services, particularly in relation to welfare during 2015/16 and 2016/17.

- In 2017/18 the Authority's waste management contract will be renegotiated. The Authority expects to make a saving on this during renegotiation.

The Council are confident in their ability to generate these savings to bridge the future funding gaps.

Business rates retention.

The Local Government Finance Act 2012 introduced new arrangements for the local retention of a proportion of business rates.

From 1 April 2013, local authorities keep 50 per cent of business rates (local share). The remaining 50 per cent (central share) is paid into a central pool, to be redirected to local authorities through other grants.

As part of its financial planning, the Authority needs to estimate how much income it will receive from business rates each financial year. Businesses can appeal against the decision on the rateable value of their business and receive a backdated refund if their appeal is successful. Outstanding appeals may therefore create financial uncertainty or volatility for councils.

We understood how the Authority has estimated its future revenue from business rates by:

- reviewing the MTFS; and
- through discussion with the s151 Officer.

The Authority's MTFS predicts that business rates income will grow from £1.08m in 2015/16 to £1.14m in 2017/18. This modest growth in NNDR income is partially driven by inflation, but the Authority also expects growth in business rates income as the Melton Local plan gathers momentum.

The Authority's budgeting process.

Over the last three years, the Authority has consistently generated budget surpluses by cutting its expenditure and growing income.

In 2014/15, the Authority's general fund generated a surplus of £412,000 more than budget. The main areas of saving / income generation were:

- An underspend of £120,000 in benefits as a result of reduced benefits case load and an increase in the recovery of fraudulent benefits payments.
- Salary savings in customer services of £43,000.
- Reduced audit fees of £30,000.
- IT outsourcing savings of £86,000.
- Development control income of £177,000.
- The Wheels to Work scheme generated £28,000 of income in the year.

We understood the Authority's processes for developing and monitoring its budget. The Authority has an established budgeting process which encourages staff to identify how they can achieve further costs savings and improve current services.

The Authority's risk register.

We reviewed the Authority's risk register and found that it contained a number of risks around:

- Uncertainty and risks over the future government funding following the spending Review 2013 and the resultant impact on the Authority's finances.

- The above heightens the risk around failing to deliver the cattle market project in accordance with agreed objectives, timescales and budget. The Authority is becoming increasingly dependent on securing alternative revenue streams separate to central government grants.

- Increased Number of vulnerable families and individuals resulting from the impact of Welfare Reforms.

- Challenge of cultural issues which could undermine our ability to transform the Authority and deliver required savings.

We understood how the Authority:

- monitors and assessed performance on the corporate and local plans;
- works with its local community to ensure it is providing the right services; and
- assesses performance internally and externally.

The Authority has adopted a number of methods for assessing its performance through communication and feedback from the local community, including:

- Running the Corporate Priorities Survey to understand what the local community see as important.
- An annual budget consultation highlighted that the local community would accept the proposed increases in Council Tax.
- Engaging in initiatives which are financially sustainable but help the local community such as the Wheels to Work project.

The Authority receives regular information on performance against the Corporate and Community Plans.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the Annual Governance Statement.

The matters that we wish to bring to your attention are included within the table below. None of the controls deficiencies identified had a significant impact on our audit approach and none were considered to be significant control deficiencies.

Summary of internal control deficiencies

Deficiency	Recommendation	Management's response
Contract Register Completeness We reviewed the top 20 suppliers and verified that, where the expenditure was based on a contract, the contract appeared on the contract register. This testing identified nine instances where a contract was expected but did not appear on the contract register.	The contract register should be reviewed to ensure it provides a comprehensive list of all contracts held	[Insert text here]
Related Party Transactions 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.	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.	[Insert text here]

Property, Plant, and Equipment (PPE) Valuation Supporting Documentation When agreeing PPE valuations to input data, we experienced difficulties in agreeing input data in the valuation reports This arose for a number of reasons including: - Site plans are not maintained in a central location. - Inputs into calculations are rolled forward from previous valuations without validation. - Valuer judgements are used in the calculations without a formal document being produced to explain the percentage being applied.	Valuation sheets should be supported by a complete audit that demonstrates how each input has been calculated.	[Insert text here]
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.	[Insert text here]

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Governance Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Governance Committee in February 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?

- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Fees update

Fees update for 2014/15

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals

	2014/15 outturn	2014/15 fee proposal
Statement of Accounts including whole of government accounts and Value for Money conclusion	57,558	57,558
TOTAL		

Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance within the Certification Report to Management in relation to 2014/15 grants.

Appendices

Appendix 1: Letter of representation

[Entity letterhead]

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
DE74 2UZ

Dear Sirs

Representation letter – Audit of Melton Borough Council's (the Authority) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Section 151 Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority’s accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- The results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- All information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

  – management;
  – employees who have significant roles in internal control; or
  – others where the fraud could have a material effect on the Statement of Accounts.

- All information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- All known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Bank accounts

I confirm that I have disclosed all bank accounts to you.

Subsequent events

Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Using the work of experts

I agree with the findings of Hymans Robertson and Inform CPI Ltd experts in evaluating the fair value of pension fund assets and liabilities and the business rates appeals provision respectively. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

....

Section 151 Officer

For and on behalf of Melton Borough Council

Date ....

Appendix 1 - Related parties and related party transactions

32 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills). Grants received from government departments are set out in the subjective analysis in Note 24 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2015 are shown in note 31.

Members of the Council have direct control over the Council's financial and operating policies. The following Members have declared 'related party transactions' with the Council during the year:

Councillor M.O'Callaghan:

a) Chairman of Melton Mowbray Food Partnership which received a payment of £312 during the year.

Councillor P Cumbers:

b) Trustee of Shop Mobility which received a payment of £1,450 during the year together with a benefit in kind ie free energy costs

Councillor M Twittey

c) Parent/Governor at John Ferneley College Academy which received a payment of £240 during the year, and an employee at Brooksby Melton College to whom payments totalling £6,790 were made in 2014-15.

d) Councillor R de Burle:

Finance Chair of Asfordby Parish Council which received payments of £134,589.45 during the year. This included the parish precept and other related payments.

e) Councillor M Sheldon:

Chairman of Asfordby Parish Council which received payments of £134,589.45 in the year. This included the Parish precept of £126,399.45

f) Councillor P Posnett:

Trustee of Melton Mowbray Bid Company Ltd for which £99,216.71 has been identified as expenditure.

Trustee of Melton Learning Hub which received payments totalling £24,140.83 during the year.

Trustee of Melton Mencap which received payments totalling £6,137.00 during the year.

g) No return has been received from Councillor L Horton

Officers. The following officer of the Council has declared 'related party transactions' with the Council during the year:

Keith Aubrey:

Strategic Director is a Director of Melton Learning Hub which received payments totalling £24,140.83 during the year.

Entities controlled or significantly influenced by the Authority

The Welland Partnership is a committed consortium of six local authorities from East Northamptonshire, Corby, Melton, Rutland, Blaby and Wellingborough; a partnership by choice. It has established joint officer working groups, created shared appointments and secured joint funding in its collective aim of delivering improved services.

130610-142627-JA-UK