

Melton Borough Council

Report to those charged with governance

Report to the Governance Committee of the Authority on the Audit
for the Year Ended 31 March 2014 (ISA (UK&I)) 260)

Government and
Public Sector

September 2014

Contents

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.

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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 audit plan to you in March 2014; we have reviewed the plan and concluded that it remains appropriate.

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 after their approval by the Authority, and prior to 30 September 2014.

We look forward to discussing our report with you on 22nd September 2014. Attending the meeting from PwC will be Alison Breadon and Ben Connor.

Audit approach

Our audit approach was set in our audit plan which we presented to you in January 2014.

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

Risk	Categorisation	Audit approach	Results of work performed
<p>Management override of controls ▶</p> <p>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.</p>	<p>Significant</p> <p>●</p>	<p>We considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We performed procedures to:</p> <ul style="list-style-type: none"> • 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 those that affect the reported year-end position. High risk items included 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 utilised our PwC 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; • understand and review the process for calculating the NNDR appeals provision. We engaged early with the client to understand the process for establishing the provision; used the key contact at Analyse Local to provide background on the calculation and methodology; and tested local data input into the calculation to reach our overall conclusion that the provision balance is appropriate; 	<p>No instances of management override of controls were identified as a result of our work.</p>

Risk	Categorisation	Audit approach	Results of work performed
		<ul style="list-style-type: none"> • evaluate the business rationale underlying significant transactions outside the normal course of business; and • we performed unpredictable procedures targeted on fraud risks. This included detailed testing on related party transactions to external sources, and also testing on a sample of immaterial expenditure balances. 	
<p>Risk of fraud in revenue and expenditure recognition</p> <p>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.</p>	<p>Significant</p> <ul style="list-style-type: none"> • 	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • 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; • we tested sundry expenditure transactions to a higher level of assurance to ensure they were recorded in the correct financial period; • 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; • understand and review the process for calculating the NNDR appeals provision. We engaged early with the client to understand the process for establishing the provision; used the key contact at Analyse Local to provide background on the calculation and methodology; and tested local data input into the calculation to reach our overall conclusion that the provision balance is appropriate; and • we performed cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period. 	<p>No misstatements were noted as a result of these procedures.</p>

Risk	Categorisation	Audit approach	Results of work performed
<p>Meeting the financial challenge ▶</p> <p>All local government organisations are faced with increased challenges in their medium term financial outlook.</p> <p>There continues to be a number of risks to the delivery of the plan, particularly in respect of:</p> <ul style="list-style-type: none"> 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 University 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. <p>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.</p>	<p>Elevated</p> <p>●</p>	<p>We considered:</p> <ul style="list-style-type: none"> the impact of new arrangements in relation to Authority; retention of business rates and the impact on the Authority's financial position; the Authority's intentions to take advantage of the Council Tax Freeze Grant; the governance structure in place to deliver the targets; the level and extent of accountability; 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. <p>We also considered any relevant accounting assumptions and whether they were realistic and reasonable.</p>	<p>Based on the work undertaken we expect to issue an unqualified value for money conclusion.</p> <p>Further details on the work we completed for the value for money conclusion is shown on pages 14 and 15.</p>

Risk	Categorisation	Audit approach	Results of work performed
<p>Changes to the Authority's finance team</p> <p>For a number of years, the Authority has had a settled finance team. The team also included technical competence and significant experience of preparing local authority financial statements. The quality of the Authority's financial statements and readiness for audit has been good in recent years.</p> <p>The finance team has undergone significant change (including the loss of key members of staff) in the last 12 months and this may affect the Authority's ability to:</p> <ul style="list-style-type: none"> • Prepare a high quality set of financial statements which require little adjustment. • Be completely prepared for the financial statements audit. • Carry out an appropriate level of scrutiny and review of the financial statements and working papers. <p>As a result of the points shown above, there is an increased risk of misstatement in the Authority's accounts.</p>	<p>Elevated</p> <p>●</p>	<p>We met regularly with the s151 Officer during the year to discuss changes to the finance team and understand the plans in place to address any gaps in resource and skills.</p> <p>We discussed our expectations with the new Central Services Manager at an early stage to ensure our requirements were understood.</p>	<p>The audit work has been substantially completed with no significant issues noted. A few minor control weaknesses were identified. These have been documented in further detail on page 15 of this report.</p> <p>Please also refer to the audit scorecard on page 8 for further consideration of your accounts and working papers.</p>

Intelligent scoping

In our audit plan presented to you in January 2014 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	£542,380
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 2014.

Auditing standards require 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 January 2014.

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 substantially completed our audit and expect to issue an unqualified audit opinion on the Authority's Statement of Accounts.

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



Red – significant improvements required



Amber – some improvements required



Green – no or some minor improvements required

	2012/ 2013	2013/ 2014	Comments
Quality of accounts and working papers			<p>The Authority prepared its accounts on a timely basis and a first draft of the accounts was available well before the start of the audit.</p> <p>Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit.</p> <p>Some minor, disclosure points were reported to management during the audit. This is not unusual and management promptly corrected these points.</p> <p>Working papers were available for audit on time and were of a good standard.</p>

Readiness for start of audit and availability and responsiveness of staff



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.

Some minor delays arose due to turnover of temporary staff.

Value for Money conclusion



Based upon the work that we have completed to date we expect to be able to conclude positively and give an unqualified conclusion on the Council's use of resources.

Significant audit and accounting issues



Our audit identified no significant issues. A small number of audit and accounting matters arose during our work. These are explained in detail later in this report.

Deficiencies in internal control systems



We identified some minor control weaknesses during the course of our work. These are considered in more detail on page 11. The weaknesses identified were not significant enough to require a change in our audit approach.

Accounting issue

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Local Government Pension Scheme. Your net pension surplus/liability at 31 March 2014 was £17.8 million (2013 - £14.3 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 used our internal pension team to provide assurance over the completeness and existence of the pension assets of the Authority.

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

Changes to IAS 19: Employee Benefits

There have been changes to the disclosure and accounting for defined benefit schemes in 2013/14. We noted that these changes were not fully reflected in the Authority's draft financial statements but have been updated in the revised set of accounts.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial.

We are pleased to inform you that there were no misstatements above our de minimis reporting threshold to report.

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.

Judgements 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. In addition to the pension liability discussed above, the following significant judgements and accounting estimates were used in the preparation of the financial statements:

Business rates appeals provision

As a result of the changes to Business Rates regulations, the Authority is now required to make provision for the cost of refunding ratepayers who successfully appeal against the rateable value of their property. A provision of £156,000 relating to 98 appeals was estimated as at 31 March 2014 and included in the draft accounts.

To arrive at this estimate, the Authority purchased software called Analyse LOCAL (developed by Inform CPI Ltd) which has been used by a large number of local authorities (including a number of other, local councils) to assist in the estimation of the likely outcome for each outstanding appeal as at the 31 March 2014. The software uses up to date outstanding appeals information from the Valuation Office Agency and based on the type of appeal, geographical location and other relevant factors, produces an outcome analysis for each appeal.

Their analysis includes whether an appeal is likely to be withdrawn, when an appeal is likely to be settled and an estimate for the potential reduction in rateable value along with the corresponding liability.

Two key judgements were exercised by the Authority in determining its provision:

- 1) appeals that have been assessed by Analyse LOCAL as *likely to be withdrawn* have not been provided for, and
- 2) assumed 90% accuracy rate for Analyse LOCAL resulting in 90% of the total being provided for.

If these two judgements were incorrect, this would result in an increase in the liability by £51,181. Although this is above the reporting threshold, it would not result in a material misstatement.

We assessed the reasonableness of these judgements by analysing the outcome of appeals since the 31 March 2014. 23 outstanding appeals at the 31 March 2014 were withdrawn of which 7 had been identified by Analyse Local as *likely to be withdrawn*.

It is highly probable that further appeals will be lodged relating to previous financial periods, as businesses have until 2016/17 to lodge an appeal against the 2010 ratings. We noted that this potential future expenditure had not been reflected in the Authority's draft financial statements but management agreed to update this in the revised set of accounts through inclusion of a a contingent liability.

Valuation of property, plant and equipment (PPE)

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 an external valuer who has estimated the value of the Authority's housing stock using RICS Valuation Standards and other land and buildings in accordance with the CIPFA Code.

Judgements applied are in the main determined by the valuation expert. To assess these, we used information from Gerald Eve (chartered surveyors and property management consultants) who produce a report every year for the Audit Commission that includes trends in land prices and building cost indices in order to aide auditors in assessing the reasonableness of the assumptions used by valuation experts. We also tested that the base data used in the valuation was appropriate by vouching to supporting documentation.

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 business rates appeals provision, and 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:

- Five entities were identified as related parties that had not been disclosed by Councillors on their declaration forms.
- Testing of these five entities identified one where transactions had arisen. The expenditure totalled £105,321.15 and related to Melton Mowbray Bid Company Ltd.

Management have agreed that the related party form needs a refresh and will use this opportunity to clarify the requirements placed on members in the disclosure of related parties, acknowledging that the current guidance provided to members is unclear.

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 in senior positions who had been directly involved in the external audit of the Authority 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 2013/14 financial year amounting to a total value of £23,200. Details of this grant certification work were set out in our Audit Plan presented to you in March 2014.

We also performed a review of the Authority’s payments system and supplier data management processes. This work was completed in the 2014/15 year and cost the Authority £15,000 which is below the Audit Commission’s de-minimis. Before agreeing this work we assessed the threats to our independence and ensured the following safeguards were implemented:

- The review was completed by members of PwC’s counter fraud team. None of the members of the external audit team contributed to the fieldwork for this review.
- PwC did not have a financial interest relating to the results of the review for the Authority. The work was completed on a fixed fee and under a separate engagement contract.
- The review did not involve PwC taking decisions on behalf of management.

In assessing the risks and safeguards in place for this review, we were able to confirm that PwC’s independence as External Auditors to the Authority was not impaired.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 17. 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 the Audit Commission's 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. The Commission'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. We confirm that we comply with the Audit Commission's rules on rotation.

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

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 with 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. The Audit Commission 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 determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. See the section *Targeted audit work* below (pages 15 and 16) for details on the results of work performed.

We have completed our work and we expect to issue an unqualified value for money conclusion.

Targeted audit work

In our planning risk assessment we identified the following areas for detailed review:

Meeting the financial challenge

All local government organisations are faced with increased challenges in their medium term financial outlook, primarily driven by marked reductions in funding both directly from central government and indirectly through a reduction in income from the County.

The Authority has a proven track record in recent years of reliably forecasting the scale of financial challenges, identifying strategies to address the challenges, including identifying significant savings plans, and implementing them successfully.

The Authority's financial statements for 2013/14 show a saving of £329,000 against a budget which forecast a breakeven position. The Authority has prudently chosen to create an earmarked reserve of £255,000 to limit its exposure to future deficits on the business rates collection fund.

The Authority's 2013/14 to 2015/16 Medium Term Financial Strategy (MTFS) approved in March 2014 seeks to build upon its track record of developing and delivering a financial plan to secure the Authority's continuing financial resilience.

Although the Authority is faced with this savings challenge, there are arrangements in place to address this which include:

- Linking the robust budget setting process to the service planning process across the Authority.
- Prudently using current reserves to make investments into areas that align with the Authority's strategy.
- Taking advantage of the Council Tax Freeze Grant until the end of 2014/15.

In 2013/14 the new homes bonus was worth £622,000 to the Authority and it is likely that this level of funding will reduce from 2017/18. The Council is considering ways in which it can reduce its current reliance on this funding stream.

When reviewing the Audit Commission's indicators for financial resilience, the Authority compares well to its nearest statistical neighbours. Many of the indicators show strong performance but our work focussed on the spend on Council Tax and Housing Benefits administration per head. This indicator had increased by 8% compared to the previous year. The increase was explained by the Authority's use of the Council Tax Burden's Grant, which for Melton Borough Council totalled £80,000. Of this, more than £60,000 was spent on developing the Council's Council Tax software to cope with the changes required for the localisation of council tax support.

Conclusion

Taking into account the Authority's past performance including its 2013/14 outturn against budget, prudence in assuming potential income streams, plans to link the MTFS to service plans and a robust budgetary process to identify additional savings, we have concluded that the Authority has proper arrangements in place to secure financial resilience.

Corporate planning and performance reporting

Our value for money risk assessment also noted the following risks shown on the Authority's corporate risk register:

- Increased number of vulnerable families as a result of welfare reform.
- Challenge of cultural issues which could undermine the ability to transform the council and deliver the required savings.

The Authority is in the process of refreshing its corporate plan and intends to align its performance framework to the new corporate objectives. In planning for this, the Authority has performed a self-assessment of the value for money achieved by each service. Areas for focus have been identified from this self-assessment and the Council has put plans in place to ensure improvements are realised.

The Authority's new corporate plan will also shift the focus towards those that need more support (i.e. vulnerable families).

A cultural change across the Authority will be needed to help ensure new areas of focus are addressed. Training has been provided to staff on competitiveness and how to get the most from resources. The Authority noted that this raised awareness of the need to ensure value for money is achieved in all categories but further work is planned in this area for 2014/15.

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.

Summary of internal control deficiencies

Deficiency	Recommendation	Management's response
Related Party Transactions Five entities were identified as related parties that had not been disclosed by Councillors on their declaration forms. Testing identified one where transactions had taken place with the related party. The expenditure totalled £105,321.15 and related to Melton Mowbray Bid Company Ltd.	As the use of declaration forms is key to the Authority's identification of related parties it is recommended that the importance of filling out and returning complete related party forms is reiterated to councillors.	
Collection Fund Arrears The Collection Fund Arrears Provision is significantly higher than the value being processed for write-off. A high % of the provision is for debt over 5 years old. The recoverability of such debt needs to be considered and the debt written-off to make the provision appropriate for current debt.	The recoverability of the old debt needs to be considered and the debt written-off to make the provision appropriate for current debt.	

Oracle Leaver

One of an original sample of five leavers still had access to the system, despite leaving the organisation in February 2014. Subsequent checks confirmed that i) the leaver had not accessed their account since the leaving date ii) extension testing to include the full 13/14 leavers population was performed with no issues noted i.e. no other leavers who still had access to Oracle.

Individuals should be removed promptly from the system once they have left the organisation.

Contract Audit Trail

Testing performed on Accounts Payable identified a balance of £216,000 that was due to G Purchase in respect of work performed under a Kitchen and Bathroom contract.

However, the contract to support this work had not been retained due to staff turnover. This has contributed to a lack of knowledge of when the work was being performed, and when the expenditure should be recognised.

The system for storing contracts should be reviewed to ensure that the audit trail is not affected by staff turnover.

Consideration should also be given as to how expenditure is verified as being performed being entered into the general ledger.

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 January 2014 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

Incentive / pressure



Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Rationalisation/attitude

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 2013/14

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals.

	2013/14 outturn	2013/14 fee proposal
Statement of Accounts including whole of government accounts and value for money conclusion	56,658	56,658

Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance within the Certification Report to Management in relation to 2013/14 grants.

Appendices

Appendix 1: Letter of representation

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 2014

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 2014 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 2013/14 supported by the Service Reporting Code of Practice 2013/14.

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 2013/14 supported by the Service Reporting Code of Practice 2013/14; 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 2013/14 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 2013/14.

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 2013/14.

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.

Business rates appeals provision

Regarding business rates appeals, an accounting estimate that was recognised in the Statement of Accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

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 the internal valuer, Hymans Robertson and Inform CPI Ltd experts in evaluating the value of property assets, 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.

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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 2014 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 £1,400 during the year.

Councillor M Twitney:

- c) Parent/Governor at John Ferneley College Academy which received a payment of £144.88 during the year, and an employee at Brooksby Melton College from 28 October 2013 to whom payments totalling £3,091 were made in 2013-14.

Councillor N Slater:

- d) Vice Chair of Shopmobility which received a payment of £1,400 during the year.

Councillor M Sheldon:

- e) Parish Councillor of Asfordby Parish Council which received payments of £90 in the year.

Councillor P Posnett:

- f) Director of Melton Mowbray Bid Company Ltd for which £105,321.15 has been identified as expenditure.

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 £3,181.50 during the year.

Lynn Aisbett:

Chief Executive whose son was employed in October and was paid an amount of £59.12 for work on a promotional video.

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.

Business Rates Pool

The Local Government Finance Act introduced the Business Rates Retention Scheme from 1 April 2013. The new arrangements enable local authorities to retain a proportion of the business rates generated in their area. Billing Authorities collect rates on behalf of Central Government (50%), Major Preceptors – Leicestershire County Council (9%) and the Leicestershire Fire and Rescue Service (LFRS) (1%), and themselves (40%). The County Council along with Leicester City Council, the LFRS and all Leicestershire District Councils agreed to operate a pooling agreement for business rates levies and safety net payments for 2013-14, the Leicester and Leicestershire Pool (LLP). The County Council was the lead authority for the pool. The pool was based on a “no better, no worse” position with District Councils paying levies into the pool and safety net payments being made from the pool. Any remaining net income was to be used to provide a £0.4m contingency for future safety nets and any further income above that level was to be passed to the Leicester and Leicestershire Economic Partnership (LLEP). The surplus of the pool at the end of the year was £0.7m to be distributed in agreement with the LLP partners. At the end of the year £52k was the Council’s levy to be paid to the pool.

Appendix 2: Other information

Information obtained on journals from work done by the audit team

As part of our response to the risk of fraud through management override of controls, a series of risk based tests were performed on the journals posted into the general ledger. A summary of the tests performed on the outcome from the test has been documented below:

<i>Journal testing performed</i>	<i>Outcome from testing performed</i>
Journals posted at weekends or bank holidays	1 journal was identified as being posted at the weekend. The journal was reviewed in details with no issues noted.
Journal preparer	All journals posted into the general ledger were identified as being posted by a member of the finance team. No journals were posted by the Section 151 Officer.



In the event that, pursuant to a request which Melton Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Melton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Melton Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Melton Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Melton Borough Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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