
Melton Borough Council

External Audit Plan 2012/13

DRAFT

Government and Public
Sector

March 2013

The Members
Melton Borough Council,
Parkside,
Station Approach,
Burton Street,
Melton Mowbray,
Leicestershire,
LE13 1GH.

March 2013

Ladies and Gentlemen,

We are delighted to present to you our External Audit Plan for 2012/13, which includes an analysis of our assessment of key risks, proposed audit strategy, audit and reporting timetable and other matters. Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many challenges affecting Melton Borough Council.

If you have any questions regarding matters in this document please contact Alison Breadon or Ben Connor.

Yours faithfully

PricewaterhouseCoopers LLP

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1 Introduction

Purpose

This Audit Plan has been prepared to provide the officers and members of Melton Borough Council (the Authority) with information about our responsibilities as external auditors and how we plan to discharge them. The Authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Authority. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussions with management and our understanding of the Authority and the local government sector, we have noted in a later section of our Audit Plan recent developments and other relevant risks. Our Audit Plan takes into consideration the impact of these developments and risks.

Period covered by this Plan

This Plan outlines our audit approach for the period 1 April 2012 to 31 March 2013, including the 2012/13 final accounts audit which we will undertake in the summer of 2013.

Code of Audit Practice and Statement of Responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in March 2010. This is supported by the Statement of Responsibilities of Auditors and of Audited Bodies (the Statement) which was also updated in March 2010. Both documents are available from the Chief Executive of the Authority or the Audit Commission's website.

Scope of the audit

As mentioned previously we perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Statement of Accounts

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA)/the Local Authority Scotland Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of the "Delivering Good Governance in Local Government: Framework" published by CIPFA/the Society of Local Authority Chief Executives (SOLACE) in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts we will examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

Value for money conclusion

Under the Audit Code we are also required to report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

As was the case in 2011/12, we will perform the work we consider necessary to allow us to give our statutory value for money conclusion based on the following two criteria specified by the Audit Commission:

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

Other reporting requirements

In addition, we are also required to consider:

- whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- whether we need to make written recommendations for the consideration of the Authority under s11(3) of the 1998 Act;
- whether we believe that the Authority or one of its officers:
 - is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,
 - is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
 - is about to enter an item of account, the entry of which is unlawful

and we need to issue an advisory notice under s19A of the 1998 Act;

- whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Authority which it is reasonable to believe would have an effect on the accounts.

Audit approach

Introduction

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how the Authority's control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is the Authority's responsibility to identify and address the Authority's operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to the Authority's circumstances. It is not designed to identify all risks affecting the Authority's operations nor all internal control weaknesses.

Significant and other audit risks

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management.

We have separately identified the risks for our audit of the financial statements and our use of resources (value for money) conclusion. Risks are categorised as follows:

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- | | |
|----------------------|--|
| ● <i>Significant</i> | <p>Financial statements: Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.</p> <p>Use of resources (value for money): Risk of impacting adversely on the use of resources (value for money) conclusion.</p> |
| <hr/> | |
| ● <i>Other</i> | <p>Financial statements: Although not considered significant, the nature of the balance/area requires specific consideration.</p> <p>Use of resources (value for money): Relevant to our use of resources (value for money) conclusion and therefore requires specific attention.</p> |
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Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Fraud and 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.</p> <p>This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	FS	<p>● Significant</p>	<p>We will consider the level of assurance provided by Internal Audit regarding management's ability to override controls.</p> <p>We will perform procedures to;</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform 'unpredictable' audit procedures. <p>We may perform other audit procedures if necessary.</p>
<p>Recognition of revenue and expenditure</p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government. This is because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are more likely to present themselves through manipulation of expenditure in the public sector.</p> <p>Accounting policies or the treatment of income and expenditure may lead to material misstatements in the reported revenue position.</p>	FS	<p>● Significant</p>	<p>We will seek to understand and evaluate relevant revenue and expenditure controls and test controls to confirm they are operating effectively.</p> <p>We will:</p> <ul style="list-style-type: none"> • continue our regular dialogue with the statutory officers of the Authority; • seek to place reliance on internal audit work on key income and expenditure controls; • evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting; • test the appropriateness of journal entries and other adjustments; • Use Computer assisted audited techniques to audit income from Council Tax, NNDR and Housing Rents.

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
			<ul style="list-style-type: none"> • review accounting estimates for income and expenditure, for example, provisions; • perform cut-off tests at year end and after date cash testing to ensure items have been recorded in the appropriate period; and • perform unrecorded liabilities testing.
<p>Meeting the financial challenge</p> <p>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:</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; 	UoR	<p style="text-align: center;">● Other</p>	<p>We will continue to review the savings plans, their robustness and performance against these plans in year.</p> <p>We will specifically consider :</p> <ul style="list-style-type: none"> • the impact of new arrangements in relation to Council Tax Benefits and NNDR on the Authority's financial position; • the authority's plans to participate in the pilot scheme for the Universal Credit; • 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 compare with other organisations and best practice. <p>We will consider any relevant accounting assumptions.</p>

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>and</p> <ul style="list-style-type: none"> 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>			

Materiality

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

During the course of our audit work it is not unusual to find relatively small misstatements which do not raise significant concerns for those charged with governance. We have previously discussed reporting thresholds for items considered to be ‘clearly trivial’ with the Governance Committee and have agreed that we will report all unadjusted misstatements over £32,000 where such items are identified.

Communications Plan and Timetable

ISA (UKI) 260 ‘Communications of audit matters with those charged with governance’ requires auditors to plan with those charged with governance the form and timing of communications with them. We have agreed with the Authority previously that ‘those charged with governance’ in the case of the Authority is the Governance Committee. Our team works on the engagement throughout the year to provide the Authority with a timely and responsive service.

Below is an overview of the audit process including timelines for reporting to the Governance Committee.

Timetable

<i>Month/Deadline</i>	<i>Audit activity</i>
October 2012 – February 2012	External Audit planning and drafting of 2012/13 Audit Plan
March 2013	Presentation of Draft 2012/13 External Audit Plan to the Governance Committee
March 2013	Interim audit
July 2013	Statement of Accounts audit
September 2013	Presentation to the Governance Committee of ISA (IK&I) 260 Report to those Charged with Governance on the audit of the Statement of Accounts
30 September 2013	Target date for issue of: <ul style="list-style-type: none"> • Audit Opinion on the Statement of Accounts; • Value for Money Conclusion; and • Opinion on the Whole of Government Accounts return
30 November 2013	Issue of Annual Audit Letter

In addition, we will report periodically to the Governance Committee on progress with the External Audit where matters of significance arise.

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 responsibilities 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

The Governance Committee's responsibility as part of its 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 the Governance Committee's attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Why commit fraud?

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

Views on fraud

We are not currently aware of any fraud which we believe could have a material impact on the financial statements. However, we will continue to hold discussions with officers during the course of our work as to any emerging issues.

As part of our discussions regarding our Audit Plan, we specifically wish to enquire of the members of the Governance Committee:

- Whether members have knowledge of fraud, whether it is actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, whether they are actual, suspected or alleged?

Audit Engagement team

<i>Audit team</i>	<i>Responsibilities</i>
<p>Alison Breadon Engagement Leader 01509 604 246 alison.breadon@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK & I) 260 report and the Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Ben Connor Engagement Manager 07889 644 879 Benjamin.e.connor@uk.pwc.com</p>	<p>Manager on the assignment responsible for the overall control of the audit engagement including delivery to timetable and management of targeted work and overall review of audit outputs.</p>
<p>Tom Gibbs Team Leader 07850 516463 thomas.j.gibbs@uk.pwc.com</p>	<p>Team leader on the assignment responsible for managing our accounts work, including the audit of the statements of accounts and the governance aspects of the use of resources work.</p>

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to the Authority and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services provided to the Council

No other services have been provided to the Council in 2012/13. We will inform the Governance Committee if these circumstances change and the details of how we will maintain our independence.

Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Audit fees

As a result of the recent procurement exercise conducted by the Audit Commission and from internal efficiencies within the Commission itself, the Commission has been able to generate significant savings and has committed to passing on these savings to public bodies. Savings of up to 40 percent in fees have been passed on to public bodies through reductions in fees.

As a result, the Authority's indicative audit fee for 2012/13 will decrease to £56,658 (exclusive of VAT and fees for grant work) which compares to the outturn fee of £99,400 for 2011/12. The Authority's indicative audit fee remains amongst the lowest of all district councils. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. Our assessments about audit risk and complexity have been based on the following assumptions:

- officers meeting the timetable of deliverables, which we will agree in writing;
- we are able to place reliance, as planned, upon the work of internal audit;
- we are able to draw comfort from the Authority's management controls;
- continued early discussion with the finance team around unusual or potentially contentious items in the accounts
- we are able to place reliance on the work of inspectors and internal audit in respect of our value for money conclusion;
- no significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based;
- an early draft of the Annual Governance Statement being available for us to review prior to 31 March 2013;
- officers providing a fully supported and robust self assessment against the use of resources criteria;
- the Audit and Committee agreeing to only those misstatements above £32,000 being reported to Authority; and
- the availability of key staff when our audit teams are on site undertaking audit work
- our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded or other changes in audit risk or complexity are identified, we will seek a variation order to the agreed fee, to be discussed and agreed with officers and the Governance Committee.

Certification of claims and returns

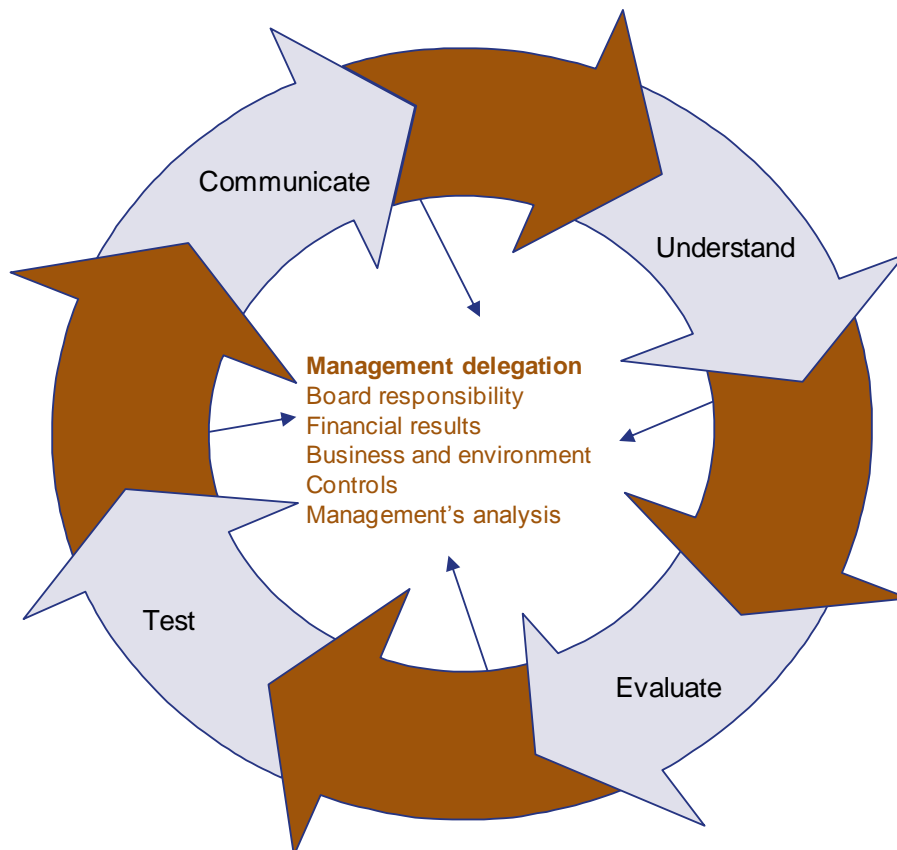
As was the case in 2011/12, the expected minimum level below which we are not required to certify individual claims and returns will be £125,000, and the expected intermediate threshold below which we are required to undertake limited testing will be £500,000. Above this threshold, certification work will be risk-based, taking account of the Authority's overall control environment. Details of those claims and returns requiring certification relating to 2012/13 are due to be released to us in Spring 2013.

The indicative composite scale fee for 2012/13 is £23,200. However, as in prior years the certification of claims and returns work will be charged at Audit Commission published hourly rates. We will discuss fees for the certification of claims and returns with you when we have greater certainty on the claims and returns requiring certification and the likely costs for the Council.

Appendices

Appendix 1: Audit approach

We continue to adopt a risk-based audit methodology and strategy to align this even more closely with management's assessment of the business risks to ensure that appropriate processes and controls are in place. The main features of our approach are set out below:



We obtain our audit evidence from the following:

- meetings/discussions with senior management to understand the business, the risks and the control processes upon which management rely, building on our previous knowledge and experience;
- evaluation of how well management manages the business, with a focus on key operational targets;
- testing of that assessment/gathering evidence;
- assessment of the materiality of each financial component, the risks attached, the effectiveness of management's control processes and the relevance to the financial statements; and
- analytical review and other substantive procedures, as necessary.

Appendix 2: Other engagement information

The Audit Commission appointed us as auditors to Melton Borough Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with the Authority.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. The Authority agrees that there are benefits to each of us in their being able to access the PwC network via the Authority's internet connection and that they may do this by connecting their PwC laptop computers to the Authority's network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of the Authority's network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to the Authority's network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and the Authority and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of the Authority's network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Appointed auditor

Alison Breadon, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Alison is not a partner.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide the Authority at all times with a high quality service to meet the Authority's needs. If at any time the Authority would like to discuss with us how our service could be improved or if the Authority is dissatisfied with any aspect of our services, please raise the matter immediately with the engagement leader responsible for that aspect of our services. If, for any reason, the Authority would prefer to discuss these matters with someone other than that engagement leader, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that the Authority's concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to the Authority. This will not affect the Authority's right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. The Authority needs to inform us of any such matters that arise so we can fulfil our responsibilities.

If the Authority has any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year

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 report has been prepared for and only for Melton Borough Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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