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*Government and Public Sector*

***Melton Borough  
Council***

Report to those charged with  
governance (ISA 260 (UK&I))

2011/12 Audit - DRAFT

September 2012





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

September 2012

Ladies and Gentlemen,

We are pleased to enclose our report in respect of our audit of Melton Borough Council (“the Authority”) for the year ended 31 March 2012, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our Audit Plan, which was discussed and agreed with you in February 2012. We have subsequently reviewed our Audit Plan and concluded that our original risk assessment remains appropriate.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements following your approval of the accounts on 20<sup>th</sup> September 2012 and subject to the satisfactory resolution of the following outstanding matters:

.....  
*We look forward to discussing our report with you on 20th September 2012.*

- The receipt of the bank confirmation from HSBC and the investment confirmation from the Chinese Banking Corporation;
- our review of the final version of the financial statements with all of the agreed changes having been made;
- receipt of all relevant signed statements and the management representation letter; and
- examination of the Authority’s papers for submission as part of the Whole of Government Accounts exercise.

We will provide an update to members on the status of these outstanding matters at the meeting of the Governance Committee on 20<sup>th</sup> September 2012.

Yours faithfully

PricewaterhouseCoopers LLP

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

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



# Executive summary

## The purpose of this report

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Melton Borough Council ("the Authority"). As agreed with you, we consider that "those charged with governance", at the Authority, are the Governance Committee.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the Plan that we presented to you in February 2012. An audit of financial statements 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.

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

### Key



Red – significant improvements required



Amber – some improvements required



Green – no or some minor improvements required

### Comments

Quality of accounts and working papers.  
Readiness for start of audit and availability and responsiveness of staff.



The Authority prepared its accounts on a timely basis with a first draft of the accounts available at the start of the audit. Working papers were available for audit on time and key staff were available so that we could make a prompt and efficient start to our work on the first day we arrived. Working papers were of a good standard.

Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some minor adjustments to the accounts were requested and agreed. The Authority performed well in the preparation of its accounts as evidenced by the lower number of disclosure adjustments compared to other authorities.

A number of disclosure amendments were also identified which have been amended appropriately.

We anticipate issuing an unqualified audit opinion on the financial statements.

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Significant audit and accounting issues.



As part of our audit we identified two material adjustments. These were agreed by the Authority and the financial statements were updated accordingly.

These related to the sale of Nottingham Road land and the New Council Offices, more information on each adjustment can be found on page 7.

These adjustments did not impact on the General Fund balance.

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Deficiencies in internal control systems.



We are pleased to note that we did not identify any material weaknesses in the accounting and internal control systems during our audit. A small number of minor control weaknesses were noted and these have been reported separately to management.

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Use of Resources/Value for Money conclusion.



We anticipate issuing an unqualified value for money conclusion. We report in more detail a summary of our work and findings in this area on page 11.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work.

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# Audit approach

## Risk Assessment

We reported our planned audit approach to you in February 2012. Our Audit Plan included the risks to be addressed as part of the audit and the work we planned to do in response.

We 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:

- 
- **Significant**

**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.

**Use of resources (value for money):** Risk of impacting adversely on the use of resources (value for money) conclusion.

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  - **Other**

**Financial statements:** Although not considered significant, the nature of the balance/area requires specific consideration.

**Use of resources (value for money):** Relevant to our use of resources (value for money) conclusion and therefore requires specific attention.

We have summarised our actual responses to the risks included in our Audit Plan in the table below:

### Financial Statements

Risk	Categorisation	Audit approach
<p><b>Fraud and management override of controls</b></p> <p>ISA (UK&amp;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. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>● Significant</p>	<p>We have updated our understanding of the Authority's controls around journals and gained some assurance on the Authority's arrangements for dealing with staff leavers, in particular controls over physical security and access to systems. Our final accounts procedures included testing of:</p> <ul style="list-style-type: none"> <li>• the appropriateness of journals processed during the year;</li> <li>• Internal Audit's work surrounding management's ability to override journals;</li> <li>• key year-end control account reconciliations, including the bank reconciliation;</li> <li>• transactions recorded after the year-end;</li> <li>• significant accounting estimates; and</li> <li>• performance of unpredictable audit procedures.</li> </ul> <p>We are still awaiting the receipt of one bank confirmation before we can conclude on our work in this area. No significant concerns</p>



		were identified as a result of this work to date.
<p><b>Recognition of revenue and expenditure</b></p> <p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. 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. Accounting policies or the treatment of income and expenditure may lead to material misstatements in the reported revenue position.</p>	<p>● Significant</p>	<p>We have updated our understanding of relevant revenue and expenditure controls and reviewed the outcomes of Internal Audit work in order to establish whether these are operating effectively. Our final accounts procedures included testing of:</p> <ul style="list-style-type: none"> <li>• the appropriateness of journals processed during the year;</li> <li>• evaluation of accounting policies for income and expenditure recognition to ensure these are consistent with the requirements of the Code of Practice on Local Authority Accounting;</li> <li>• routine income and expenditure transactions;</li> <li>• significant accounting estimates;</li> <li>• revenue and expenditure cut off at year end;</li> <li>• a sample of income and expenditure transactions; and</li> <li>• analytical procedures on income and expenditure at the year-end and reviewing the reconciliation of your management information to the information presented in the accounts on a gross basis.</li> </ul> <p>No significant concerns were identified as a result of this work.</p>
<p><b>Valuation of New Council Offices</b></p> <p>The new Council offices will be recognised as an asset in use for the first time in the Authority's 2011/12 financial statements. Accounting standards require fixed assets to be measured at their fair value.</p>	<p>● Other</p>	<p>Our final accounts procedures included testing of:</p> <ul style="list-style-type: none"> <li>• agreement of fixed asset balances per valuations reports to the general ledger and fixed asset register;</li> <li>• recalculation of revaluations and impairments charged during the year;</li> <li>• consideration of external and internal factors which may have caused material changes in the fair value of properties which have not been revalued during the year; and</li> <li>• use of our internal valuations experts to assess the professional valuations exercise performed in March 2012.</li> </ul> <p>No significant concerns were identified as a result of this work.</p>
<p><b>Sale of the Nottingham Road Site</b></p> <p>The Authority received a significant capital</p>	<p>● Other</p>	<p>As part of our final audit we reviewed the accounting entries for this transaction and agreed the sale value to legal transfer</p>

<p>receipt from the sale of the former Council House for use as a site for a supermarket. Due to the size and unusual nature of the transaction there is a higher risk that it may be accounted for inaccurately.</p>		<p>documentation.</p> <p>As a result of this work we identified that the land had been disposed of on a 125 year lease as opposed to a sale of the freehold. This represents a sale for deferred consideration, requiring technical accounting entries to be calculated, an exercise which had not been performed by the Authority.</p> <p>As such we identified several adjustments in relation to this transaction which were amended by the Authority in their final accounts. See further details on page 7.</p>
<p><b>HRA self financing</b></p> <p>The Department for Communities and Local Government (DCLG) has published its consultation on the Housing Revenue Account Self-Financing Determinations.</p> <p>Under plans the current HRA subsidy system will be replaced by councils taking control of their housing rental income enabling them to plan for the long term management of these assets. In return councils will take on a share of the £28bn housing debt as part of the self financing settlement.</p> <p>The consultation suggests that the impact on the Authority will be a requirement to pay £27.6 million to the Secretary of State before the end of March 2012 and changes will be required to the calculation of the item 8 debit and credit in 2011/12.</p>	<p>● Other</p>	<p>As part of our final audit we reviewed the accounting entries for this transaction and agreed relevant amounts to DCLG determinations.</p> <p>We obtained an independent confirmation from the Debt Management Office in relation to the PWLB loan taken out to fund the self financing arrangement.</p>

### Use of Resources (value for money)

Risk	Categorisation	Audit approach
<p><b>Meeting the financial challenge</b></p> <p>The Authority is required to make significant efficiency savings over the next two years. The Authority is hoping to make significant reductions in its cost base in 2011/12 through a management restructure and the usage of its new premises.</p> <p>There is a risk that the saving plans may not be robust or based on long term solutions which could adversely affect the Authority's financial resilience.</p> <p>There is also a risk of deteriorating operational performance and quality due to</p>	<p>● Other</p>	<p>We reviewed the Authority's budget for 2012/13 and its Medium Term Financial Strategy. We also reviewed outcomes against performance indicators to understand whether service delivery is being maintained.</p> <p>We did not identify any concerns over the Authority's financial resilience. The Authority made a surplus in 2011/12 which has further increased general fund reserves. The Authority has developed plans to achieve further reductions in expenditure, or to increase income, in 2012/13. See further details on page 11.</p>

reduced resources and management capacity where cost savings are made without careful consideration.		
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# Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

## **Accounts**

We have substantially completed our audit, subject to satisfactory resolution of the outstanding matters highlighted in our covering letter above. Following approval of the financial statements by the Governance Committee we anticipate being able to issue an unqualified audit opinion.

## **Accounting issues**

The quality of the draft financial statements we were presented with for audit was good. We identified a number of amendments to disclosures within the statements, but none of these were considered to be significant. The Finance Team have worked hard to meet timescales for preparation and audit of the financial statements and were helpful in resolving our queries. We would like to thank the Finance Team for their support and assistance during the audit.

## **Misstatements and significant audit adjustments**

### **Uncorrected misstatements**

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We are pleased to note that there are no misstatements identified during the course of our audit which remain unadjusted.

### **Adjusted misstatements**

As a result of our work we identified three significant adjustments as follows:

- **Sale of Nottingham Road Land:** this had initially been treated as an outright sale. Upon review of legal documentation we identified this was a sale of the leasehold for 125 years with a large up front premium followed by annual rental income. The Authority maintains ownership of the freehold for the land.

As a result of this, accounting standards require the Authority to recognise the present value of the future rental income as receivable on its balance sheet with annual entries to recognise payments made against the receivable and the interest cost of providing this 'finance' as part of the contract.

The net impact of this adjustment was to increase the gain on disposal for this sale by £470,000 and reduce the Revaluation Reserve by the same amount. There was also a transfer of £600,000 from Property, Plant and Equipment to Accounts Receivable.

- **Parkside premises license to Leicestershire County Council:** in return for capital contributions received from Leicestershire County Council (LCC) to fund the Authority's new offices, LCC have been granted office space for a rent free period of 40 years.

We agreed with the Authority the correct accounting treatment in order to recognise this arrangement, which involves deferring the contribution at the inception of the lease and then releasing the income during the life of the license/agreement. However as part of our final audit testing we identified that these entries had not been reflected within the accounts.

The impact of this adjustment was to reduce the capital adjustment account by £1.575 million and create a long term liability for the same value. This liability will then reduce each year to reflect LCC's usage of the Council offices.

- **Collection Fund Presentation:** 'Income collectable from Business rate payers' and 'Payment to the National pool' are both understated in the collection fund by £1,418,000 due to one of the accounting entries being deducted rather than added to the total balance. The adjustment has no net impact on overall results for the collection fund.

The net impact of the adjustments made to the accounts has not impacted upon the General Fund balance.

### ***Significant accounting principles and policies***

The Authority's financial statements set out the important accounting principles and policies which the Authority adheres to. We will ask the Section 151 officer to represent to us that the Authority's choice of accounting policies are appropriate and that the financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting .

### ***Judgments and accounting estimates***

The following significant judgments or accounting estimates were used in the preparation of the financial statements.

#### ***Pensions liability***

The most significant estimate included in the financial statements is in the valuation of net pension liabilities for employees who are members of the pension fund administered by Leicestershire County Council. The net pension liability as at 31 March 2012 for Melton Borough Council was £11.804 million. This represents an increase from prior year of £3.285 million.

We have reviewed the reasonableness of the assumptions underlying the pension liability in the accounts. Overall we are comfortable with the net effect of the assumptions adopted. We also sought to validate the data supplied to the actuary on which to base their calculations.

#### ***Valuation of non-current assets***

The valuation of non-current assets is a further area of significant judgement within the accounts. The Authority engaged the services of the District Valuer Service to assess the value of the properties as at 31<sup>st</sup> March 2012.

We have utilised our own internal valuations experts to review the assumptions and methodologies applied by the District Valuer and have identified no significant issues. We have also sought to validate the data supplied to the District Valuer on which they have based their calculations and agreed the valuations information to the asset register, general ledger and final accounts.

#### ***Accruals***

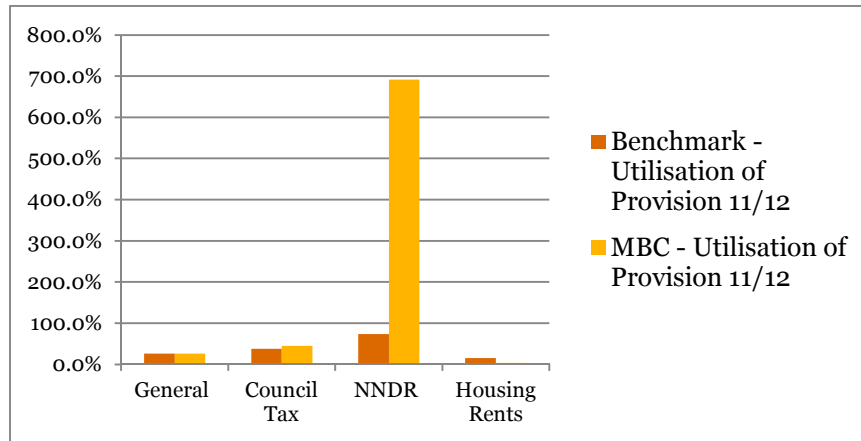
Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Authority knows that there is a liability to be met which relates to the current year. This involves a degree of estimation. Detailed testing was performed on significant accruals. No misstatements were identified from this work.

#### ***Bad Debt Provision***

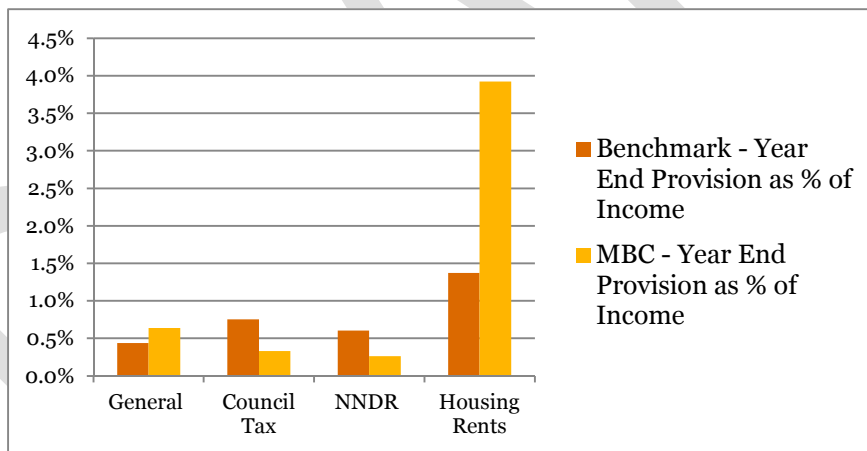
Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision. We have discussed the approach to calculating the provision with management. This is based on a combination of applying a set percentage based on the Authority's previous track record in the collection of debt and a review of specific debts to assess recoverability. We identified a number of anomalies from our review of the Authority's

bad debt provisions against total receivables balances at year end and amounts written off in the year. The following graph benchmarks the Authority's bad debt provisions against similar, local authorities.

- **Utilisation of Provision during 2011/12**



- **Provision at 31<sup>st</sup> March 2012 as % of Income**



The analysis identified outliers relating to the high level of provision for housing rents as a proportion of income and a significantly high utilisation of the provision for bad debt in relation to NNDR (i.e. a much larger value has been written off during 11/12 than was provided for at the start of the financial year).

These matters have been discussed with management and we have satisfied ourselves that there is no risk of material misstatement relating to provisions. However, the outliers identified should be re-assessed by the Authority in order to ensure the level of provisioning is as accurate as possible.

***Material risks and exposures***

No material risks or exposures were identified.

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### ***Disagreements with management***

There have been no disagreements with management about matters which, individually or in aggregate, would be significant to the entity's financial statements or our audit report.

### ***Management representations***

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in the Appendix to this report.

### ***Financial standing***

There were no material uncertainties related to events and conditions that may cast significant doubt on the Authority's financial standing. We have concluded that in overall terms, you have sufficient resources available to meet your commitments for at least a 12 month period after the date of our audit opinion. We have therefore concluded that the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.

### ***Related parties***

There are no related party matters to be communicated.

### ***Audit independence***

We are required to communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Company, its directors and senior management and its affiliates ("the Group") that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the financial statements.

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

### ***Accounting systems and systems of internal control***

It is the responsibility of the Authority to develop and implement systems of internal 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 financial statements and are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

We have identified no issues that we wish to bring to your attention. The audit work we have conducted has identified a small number of minor control weaknesses which we will report separately to management.

### ***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 not included in the financial statements.

We have reviewed the AGS to consider whether it complies 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 that the document was not misleading or inconsistent with other information known to us from our audit work.

# Value for money conclusion

## *Economy, efficiency and effectiveness*

Our responsibilities as the Authority's appointed auditors require us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is based on 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.

As in 2011/12, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Based on the work we have undertaken, we anticipate issuing an unqualified value for money conclusion.

## *Market Context*

Local authorities have generally been successful at delivering against an ambitious programme of financial savings over 2011/12, without any marked reduction in the quality of frontline provision. There is a strong degree of confidence in the sector for about being able to repeat that performance in the year ahead. Much of the focus has remained, and will continue to remain, on achieving further savings and efficiencies through the way that councils operate internally and through tightening arrangements around third party spend. Much of the internal focus remains on improving back office operations and transforming processes.

The Coalition Government's austerity budgets have been justified and predicated upon two critical assumptions – a rapid return to growth in the UK economy, and a sustained period of stability after that. With a stalled economy showing little sign of growth, and continued and potentially severe upheaval in the Eurozone, neither of those two assumptions any longer hold true. The most prudent planning assumption for the medium term is therefore that there will be a further round of public expenditure reductions, well into the lifetime of the next Parliament. It is anticipated that local government will once again be asked to make a significant contribution to closing the gap. Councils must plan now on how best to prepare for a turbulent future.

Our review of the Authority's arrangements for securing Value for Money in 2011/12 have identified that the Authority is continuing to respond well to its financial challenges without impacting significantly service provision.

## *Financial Resilience*

### **2012/13 Budget**

The Authority's Central Government formula grant is reducing by £0.4m (13.7%) in 2012/13 and so the Authority is forecasting a corresponding reduction in net expenditure of £0.5m. The Authority plans to achieve this reduction in expenditure through the full year impact of efficiencies generated through a number of significant schemes such as the new waste contract, leisure centre contract, new Council offices and the reduction in interest payable due to the general fund being debt free. The Authority produced a balanced budget for 202/13.

### **Medium Term Financial Strategy**

The Authority's Medium Term Financial Strategy (MTFS) forecasts the best and worst case scenarios between 2012/13 and 2014/15. The cumulative surplus in the best case over the period is £1.8m whilst in the worst case is a cumulative deficit of £1.4m. The Authority currently has sufficient general fund revenue reserves to be able



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to fund the worst case scenario modelled in the MTFs. General fund reserves totalled £2.5m as at the end of March 2012. The MTFs appears prudent in that no new efficiency savings are assumed in the model as the Authority has taken the approach that unless the savings have been achieved they are not forecast.

### ***HRA 30 Year Business Plan***

The Authority has developed a Business Plan which uses a number of assumptions to forecast the surpluses and cashflows over a 30 year period in the HRA. In the first five years of the plan it forecasts that the HRA will make surpluses, and hence contributions to reserves, of between £620,000 and £800,000 per annum.

The Authority has performed a number of downside scenarios to understand the financial implications if key assumptions, such as inflation, were to adversely change. In all of the scenarios the Authority forecasts that it will continue to have a positive reserve balance in the medium term. The model also forecasts a significant increase in capital expenditure during years 15 and 21 to account for anticipated renovations to properties.

### ***Conclusion***

Our review of the Authority's MTFs, 2012/13 budget and HRA forecasts do not give rise to significant concerns over the Authority's financial resilience during the short to medium term

Making accurate assumptions about the future funding level in particular is increasingly difficult. Reforms to local government finance in future years will introduce uncertainty regarding funding methods including the changes to the system for collecting NNDR income. This requires a level of prudence to be incorporated within the funding assumptions contained in the Strategy and the budget forecasts. The accuracy of these assumptions will have a big impact in relation to the use of reserves and the level of savings required in the future. If further reductions in funding were announced this would result in the need to identify comparable savings to offset any variation from the assumptions in the plan. It is important that the Authority continues to focus on how the required efficiencies can be delivered whilst retaining an appropriate level of reserves to ensure the future financial resilience of the Authority.

### ***Economy, efficiency and effectiveness***

The Authority demonstrated in 2011/12 that it provided services at a good performance level. An example of a service area which is performing well is NDR collection which has collection costs that are below average coupled with good performance\*.

One area where performance has been below average has been the level of homelessness in the borough. This is because of a high housing need coupled with expensive housing costs. In the longer term the Authority is hoping to make use of its HRA self financing flexibilities to build more social housing properties to resolve this issue.

The Authority has delivered cost savings through service changes and the retendering of contracts. There are two notable examples of savings achieved through retendering contracts. Firstly, the Authority made savings in its waste contract through moving to co-mingled recycling as opposed to separated recyclable waste. Secondly, the retendering of the Waterfield Leisure Centre contract is expected to deliver £500,000 of additional income per annum due to increased gym space and the removal of the family pool from 2012/13 onwards.

Efficiencies were also achieved in 2011/12 through the use of more efficient ways of working at the new Council offices. Furthermore, the new offices have generated significant rental income from third parties. The full year impact of these will be realized in 2012/13.

The Authority continues to invest in areas which are consistent with its strategic aims. The Authority is partnering with other organisations to invest in improving broadband services in the borough. It is also planning on redeveloping the cattle market as well as investing in the Local Authority Mortgage Scheme - this will enable first time buyers to purchase homes in the borough through the Authority's guarantee of part of the mortgage debt.

\* Information from the Audit Commission's VfM profile tool has been used to assess the Authority's performance compared with similar authorities. This information is based upon 2010/11 data.

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**Conclusion**

In overall terms, based upon the work that we have performed we anticipate concluding positively on the two stated criteria and plan to issue an unqualified conclusion on the Authority's use of resources.

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## ***Risk of fraud***

As part of our work on fraud, we enquire with management as to whether there have been any actual, suspected or alleged frauds affecting the Authority which as auditors we should be made aware of. To date we have not identified any material instances of fraud that would impact on our audit opinion. If this status changes between the date of this report and the signing of our audit opinion, we will be required to consider the impact on our audit opinion.

In presenting this report, we seek your confirmation that there have been no matters of which you are aware that have arisen in relation to the risk or incidence of fraud that should be brought to our attention. A specific confirmation from the Authority in relation to fraud will be included in the letter of representation.

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# ***Fees update***

## ***Fees update for 2011/12***

We reported our fee proposals as part of the Audit Plan for 2011/12. Our actual fees are expected to be in line with our original proposals as follows:

	<b>2011/12 Outturn (£)</b>	<b>2011/12 Fee proposal (£)</b>
Audit fee, including financial statements audit, Use of Resources/Value for Money conclusion and Whole of Government Accounts.	94,430	94,430
<b>TOTAL</b>	<b>94,430</b>	<b>94,430</b>

## ***Grants, claims and returns***

In addition, we perform work relating to the certification of grants on behalf of the Audit Commission. The fees for this work are not included in the table above. Work on grant claims is billed based upon time taken to certify each claim at rates prescribed by the Audit Commission.

## ***Non Audit Work***

We have undertaken one piece of non-audit work in 2011/12 which was Governance training to the members of the newly formed Governance Committee in June 2012. The fee for this work was £600 plus VAT.

## ***Indicative fees for 2012/13***

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).

# *Appendices*

# Letter of representation

20<sup>th</sup> September 2012

**To: PricewaterhouseCoopers LLP**

To PricewaterhouseCoopers LLP  
Donington Court  
Pegasus Business Park  
Castle Donington  
East Midlands  
DE74 2UZ

Your Ref: MBC AB/DP

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Melton Borough Council (the “Authority”) for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12.

My responsibilities as Section 151 Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Authority. I also acknowledge 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 Melton Borough Council 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:

***Financial Statements***

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 2011/12; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

I confirm that the selection and application of accounting policies is appropriate.

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 financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Melton Borough Council 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.

### ***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 financial statements such as records, documentation and other matters, including minutes of relevant management and Committee 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.

### ***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 financial statements may be materially misstated as a result of fraud.

I have disclosed to you 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 financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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 financial statements.

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 financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule / schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

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 2011/12.

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 the Authority has 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 financial statements, 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 financial statements 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 2011/12.

### ***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.



### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2012 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

### ***Pension fund registered status***

I confirm that the Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Bank accounts***

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Going Concern***

An assessment has been made of the financial health of the Authority for a period of at least one year from the approval of the financial statements.

### ***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 financial statements.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

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 financial statements.

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.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements.

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**Property, Plant and equipment**

We confirm that the approach taken by the Authority in determining the valuation of property, plant and equipment as at 31 March 2012 is considered to be appropriate. In particular, we are satisfied that the following assumptions made in relation to the fair value measurement of the Authority’s property, plant and equipment are reasonable:

- the assumptions used in the valuation of the new Council Offices; and
- the change in valuation methodology on the Authority’s two Children’s centres from Depreciated Replacement Cost to Fair Value.

***Using the work of experts***

I agree with the findings of both our valuer and the pension fund actuary, experts in evaluating the value of our non-current assets and pension fund liabilities respectively and 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.

As minuted by the Governance Committee at its meeting on 20<sup>th</sup> September 2012

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Section 151 Officer  
For and on behalf of Melton Borough Council

Date .....



*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.*

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