

Government and Public Sector

Melton Borough Council

2009/10 Annual Audit Letter

November 2010

The Members
Melton Borough Council
Nottingham Road
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Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2009/10 audit. We look forward to presenting it to members at the Overview and Scrutiny Committee on 14 December 2010.

Yours faithfully

PricewaterhouseCoopers LLP
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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

The 'Statement of Responsibilities of Auditors and of Audited Bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Melton Borough Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the Statement is available from the Chief Executive of Melton Borough Council. 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 expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement and the Code of Audit Practice. 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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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2009/10 audit work we have undertaken at Melton Borough Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- our audit opinion for the 2009/10 financial statements, incorporating our conclusion on Value for Money; and
- our report to those charged with governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2009/10 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2010.

Audit findings

Accounts

We audited the Authority's accounts in line with International Standards on Auditing (UK & Ireland) and issued an unqualified audit report in September 2010.

We identified the following key issues from our audit of accounts:

Adjusted Differences

The audit process identified some issues around the adequacy of disclosures within the financial statements, where some adjustments were deemed to be necessary in order to enhance the accuracy of the financial statements. However none of these adjustments were considered to be of such significance to require bringing to the attention of members of the Overview and Scrutiny Committee.

Unadjusted Differences

A number of unadjusted differences were identified as part of the final audit work performed. These were detailed within our ISA260 report issued in September 2010. The net impact of these unadjusted differences, if adjusted, would have been to decrease the Authority's General Fund balance by £148,444, with a corresponding decrease in net assets. One of the largest items making up this balance relates to the need to accrue for holiday pay under IFRS. The opening accrual as at 1 April 2010 has been calculated to be £119,143.91, whilst IFRS accounts are not required until 2010/11, the calculation of this opening accrual provides sufficient information to determine that the Council has a financial obligation, as at 31 March 2010. Consequently, this accrual should be accounted for within the 2009/10 accounts. From 1 April 2010, legislation has been passed which will mitigate the impact of the holiday pay accrual on Council Tax payers. However, for the 2009/10 financial year there is no mitigating legislation and as such this has remained an unadjusted misstatement in the 2009/10 financial statements.

Capitalisation of expenditure

During the course of our audit work we identified a number of instances where expenditure had been capitalised but where it was unclear, given the supporting evidence available, whether the expenditure was correctly classified as capital. Had the expenditure being charged to revenue, rather than capitalised, the Housing Revenue Account working balance would have decreased to £2,211, well below the Authority's target level of £250,000.

Financial Standing

Members of the Overview and Scrutiny Committee are responsible for ensuring that the Authority has arrangements in place to secure an adequate financial standing. The Authority recognises that this will be increasingly challenging over the medium term.

The current economic climate, recent government spending review and service pressures resulting from demographic changes will test such arrangements. PwC have estimated that the East Midlands could face public and private sector job losses of around 60,000 or 3% of the workforce between now and 2015.

In 2009/10, the Authority reported a £424,000 deficit in its Income and Expenditure Account and a decrease in reserves of over £5million. This fall is mainly due to an increase in the deficit on the pensions reserve by £9,193,000 which has been offset by the upwards revaluation of Housing Revenue Account stock by £1,536,000 and Council land and buildings by £2,995,000.

In response to these challenges the Authority has taken some positive steps, including developing a Medium Term Financial Strategy (MTFS) for the period 2010 to 2013, identifying the need to make significant savings.

However, in light of the pressures faced by the Authority, it remains imperative that focus continues on the following areas;

- close monitoring of achievement against savings targets; and
- maintaining sound financial management: ensuring budgets are closely controlled in spite of service pressures.

The Authority has already begun to consult with stakeholders about service priorities with a view to reducing budgets in areas of lowest priority. It will also be important to consider ways to minimise back-office costs, including ongoing consideration of the most cost-effective ways to provide these services, either in house, in partnership with others, or through an outsourced solution.

Conclusion on Use of Resources

We were required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its use of resources in September 2010.

Comprehensive Area Assessment

Following the Government's announcement to abolish the Comprehensive Area Assessment (CAA), all work on use of resources for the Comprehensive Area Assessment ceased at the end of May 2010. Therefore, we did not complete this work as planned. We reported separately to members our findings based on the work we had undertaken prior to May 2010 in our ISA 260 report issued in September 2010.

In summary, our initial work revealed that improvements had been made in a number of areas to strengthen both governance and financial arrangements. The Council has undertaken a comprehensive review of its service provision in order to ensure it is aligned with the strategic priorities and Corporate Plan and has continued to make best use of customer insight data and information to support decision making and in managing its performance. At the time of our review the Council had taken steps to facilitate good governance at a Corporate level, but we are aware that governance arrangements will be tested further over the coming years in order to ensure the successful implementation of the new build council offices and a smooth transition to the new working environment.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

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

Matters for future accounting periods

Transition to International Financial Reporting Standards (IFRS)

The Code of Practice on Local Authority Accounting in the United Kingdom 2010. will apply to next year's financial statements. The new Code is the first to be prepared under IFRS.

The Authority needs to ensure that it has a good grasp of the changes to accounting requirements under the new Code. The Authority should now have systems in place to collect and process the information needed to prepare IFRS based accounts and should at this stage be well progressed with preparation of comparative information as at 1 April 2010 for next year's financial statements.

In our experience the key features of a successful IFRS conversion project have proven to be:

- an impact analysis and comprehensive conversion plans;
- the commitment of key stakeholders in the organisation;
- operational steering and technical groups;
- oversight by members;
- regular progress reporting against the plan;
- appropriate project management resources; and
- appropriate and timely training for all members and officers with IFRS involvement.

Clarity International Standards on Auditing (UK & Ireland)

We will be required to apply Clarity International Standards on Auditing (ISAs) for UK and Ireland to next year's accounts audit for the first time.

The Clarity ISAs overhaul existing auditing standards, both improving clarity of existing standards and introducing new requirements designed to improve audit quality and financial reporting.

A number of standards have been completely revised. There will be approximately one-third more explicit requirements in the standards applying to our audit next year. The actual impact on cost of the audit will depend on a variety of factors, including how effectively the Finance Team are able to obtain additional information needed to enable us to perform the required procedures.