

Melton Borough Council

2008/09 Annual Audit Letter



The Members
Melton Borough Council
Nottingham Road
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November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members in December 2009.

Yours faithfully

PricewaterhouseCoopers LLP

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

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Executive Summary

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 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:

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- 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 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2008.

Audit Findings

Audit opinion

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

System of internal control

We have not identified any material weaknesses in the Council's accounting and internal control systems during the audit.

Financial standing and the economic outlook

In common with most public sector bodies, the Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010, further significant cuts in public sector expenditure will have to be made.

Use of Resources

The new Use of Resources framework forms part of the Comprehensive Area Assessment. We evaluated the arrangements against criteria set by the Audit Commission and reached a score of 2 (performs adequately) for each of the three areas under assessment (namely managing finances, governing the business and managing resources). It is important to note that although the one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison.

We issued an unqualified conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its Use of Resources on 30 September 2009.

Summary or recommendations

We have made a number of control recommendations to the Council during the year and have issued to reports summarising these recommendations to the Head of Financial Services. From a broader perspective, we think that it will be important on the Council to continue to focus upon the following key areas:

- Sound financial management across the whole organisation at a time of significant financial pressures, combined with an ever greater call on resources, and;
- Effectively managing the significant capital programme, particularly in respect of the commissioning and building of the new Council offices.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30th September 2009.

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

Adjusted Differences

Two significant adjustments were made to the accounts, following consideration by both ourselves and your officers:

1. A provision for £165,000 for costs expected to be owed to the insurers has been reversed as it has been agreed that any future reimbursement from the Insurers will be received net of these costs.
2. An impairment loss charged to the Council Offices land, and revaluation gain charged to the Nottingham Road Car Park had been overstated by £1,300,000.

There was no impact on net assets as a result of these transactions.

Unadjusted Differences

A small number of unadjusted misstatements, primarily in relation to debtor and creditor cut-off errors at the year end were also identified during the course of the audit. The net impact of these would have been to decrease the

General Fund balance by £18,000 and decrease net assets by a corresponding amount.

Accounting for major insurance claim

The initial draft of the accounts included costs incurred during the year in respect of the major fire at the Council offices and the efforts required to maintain a service, in addition to reflecting monies received up to 31 March 2009 from the insurer to reinstate part of the former Council offices into usable accommodation and to pay lease costs at the Melton Mowbray Building Society where many staff were decamped to. The insurance income streams were effectively accounted for on a cash rather than an accruals basis. There was no reflection of the final insurance payments in respect of the planned new Council offices.

We agreed with the Head of Financial Services that the amounts involved should more properly be disclosed within the accounts as a contingent asset. This reflects the fact that while there is a high degree of confidence that the Council will receive these monies, there is significant uncertainty about when this will take place and how much will be received, given that the insurers are operating on a replacement cost basis, which will reflect the actual cost of a new headquarters, rather than a straightforward financial amount.

Financial Standing

In the year ended 31 March 2009, the Authority reported a deficit of £127,000 on its General Fund. This related to planned expenditure for which supplementary estimates were approved. A deficit of £154,000 was also reported on the Housing Revenue Account (“HRA”).

Although the deficit on the General Fund was absorbed by a transfer from reserves, and savings were identified by the Council during the year through increased budget monitoring and controls over spending, further deficits are predicted in 2009/10. The Council’s working balance was enhanced by £60,000 to £640,000 during the year and the forecast General Fund overspend of around £35,000 can be more than managed from within this increase.

Reasons for the overspends are rooted in the current economic climate, which has created an increased demand for Council services while at the same time reducing sources of income.

A significant proportion of the General Fund variances are expected to be caused by the increasing Benefits caseload, which should be covered by subsidy from central government. Further causes are the falling interest on investments, reflecting the Authority’s assumptions that interest rates will remain low, and falling car park and fee income, particularly in respect of building and planning control.

We have been advised that the HRA is experiencing difficulties as a result of greater than anticipated costs of repairs and maintenance, in particular void repairs, reroofing costs and kitchen and bathroom replacements. The reasons for this are currently being analysed by the Council’s service and finance teams.

The Authority also has an ambitious capital programme over the medium term which will require significant capital resources. This involves projected spend of up to £7.5 million on capital projects, including the new Council offices which will be funded through insurance claim proceeds.

In these circumstances, and given the budget risks the Council has itself already identified over the coming years, it remains imperative that the Council continues to focus on the following areas:

- Sound financial management and keeping to budgets, particularly the HRA, in spite of service pressures;
- Achieving the significant savings targets identified within the budget monitoring process;
- Continuing to improve and modernise services, making them more efficient and affordable;
- Sound management of the Council’s capital programme.

Use of Resources

From April 2009, the Audit Commission has been implementing the Comprehensive Area Assessment (CAA) jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA.

On 9 December 2009 the Audit Commission published its organisational assessment for Melton Borough Council. The organisational assessment forms part of the CAA process in 2008/09. The assessment confirmed that the Council was performing well overall. The organisational assessment confirmed that the Council's services are mostly good and that the Council is working well to help more vulnerable residents.

Our work on the assessment of the Council's Use of Resources in 2008/09 has also fed into the overall CAA process.

In 2008/09, the Audit Commission issued new Key Lines of Enquiry (KLoEs) for auditors to assess local authorities' use of resources arrangements against.

We assessed the Council's arrangements against a series of KLoEs, grouped into three themes which form the Use of Resources framework:

- Managing finances
- Governing the business.
- Managing Resources.

The assessment has changed, to focus on the Council's achievements, outputs and outcomes rather than its processes. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the key lines of enquiry are more strategic and focus much more explicitly than previously on value for money achievements rather than on processes. Auditors are therefore considering the Council's strategies and achievements, rather than the detailed processes that the Council has put in place.

In practice the change of emphasis from systems and processes to real and measurable outcomes means that it is far more difficult for authorities to achieve the same overall score as they did in prior years.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Inadequate performance;
- 2 Performs adequately
- 3 Performs well; or
- 4 Performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

The 2008/09 Use of Resources assessment has resulted in the Council being given a score of 2.

It is important to note that although the above 1 to 4 scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different.

The new approach is a much harder test and in reality it was significantly easier to score, for example, a level 3, under the previous methodology than is the case now. It should be noted that in most cases, where a score of 2 has been given for a KLoE, the Council has comfortably achieved that score. There are strong indications that if the Council continues to build upon its current practices, there is scope for higher scores to be achieved in many KLoE areas in the years ahead.

On the following pages we have provided some analysis of the Use of Resources scores achieved. We have also identified a number of areas that the Council might wish to focus on going forward.

Managing finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	2
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary findings

The Council has delivered services within constrained budgets and met or surpassed efficiency targets, despite having very limited resources as a particularly small council. This will become increasingly important in the years ahead, as the demand for Council services is likely to increase, against a backdrop of diminishing funding streams from central government.

The Council have engaged well with young people when setting priorities, including the use of a youth conference and a questionnaire to more than 2,000 young people in the Borough, the outcomes of which have impacted on budgetary priorities.

Financial responsibility is devolved to managers throughout the organisation and managers are heavily involved in building and monitoring budgets, working closely with accountancy staff.

Financial statements are produced on a timely basis and reflect the appropriate local government accounting requirements.

Areas for development:

There are promising indications that the Council will improve productivity through a gradual reduction in unit costs. Demonstrable outcomes in this regard will be useful evidence in respect of this theme of the assessment.

Arrangements are in place for devolved budget management to take place throughout the Council. It will be helpful going forward to see evidence that these arrangements lead to consistently effective budgetary control, particularly in respect of cost savings being initiated at a service level.

The Council uses partnership working in some areas, making particular use of the Welland Partnership. It will be important for the Council to demonstrate the degree to which the use of partnerships is driven by an overarching strategy.

There is also scope for the Council to develop further the assessment of its environmental impact and of environmental reporting.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	3
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

Summary findings

Melton has used its commissioning to secure benefits for the communities most in need of social support. As part of a review in 2007 the Council created a Customer Insight Officer post and services orientated around the well being of the individual and place shaping. Good examples have been seen of demonstrable outcomes for local people as a result of this approach to commissioning.

Within the assessment of KLoE 2.2, our work on Housing Benefits and Council Tax Benefits identified a number of data quality issues, although not to an extent sufficient to impact upon the score for this area of the Use of Resources assessment.

With effect from 2008/09, Councils have moved away from the Best Value Performance Indicator regime and instead contribute data known as 'National Indicators' or "NIs" to the Government's National Indicator Set.

We spot-checked the data quality of two of the Council's National Indicators, with the following results:

- **NI 156 Number of Households Living in Temporary Accommodation**

No significant data quality issues were identified in respect of this NI.

- **NI 192 Percentage of household waste sent for reuse, recycling and composting**

A number of minor data quality issues were noted in respect of this NI. None of the issues noted were deemed to be significant and there was no impact upon the Council's Use of Resources assessment as a level 2.

The Council is a partner within the Leicestershire Information Management Advisory Group which examines data collection and shares good practice.

The Council has adopted the governance principles set out in the CIPFA/SANA framework and the Standards Committee has dealt with complaints under the new arrangements. The Council's Constitution is subject to annual scrutiny in which members are actively involved through the Constitution Working Group that reports to the Overview and Scrutiny Committee.

The Council has a Risk Management Policy and Strategy and has identified the risks associated with the current economic downturn. Partnerships are an integral part of the Council's service delivery and are managed through the same integrated risk-management procedure as other risks.

Areas for development:

While we have seen good practice within the Council's approach to commissioning, there is scope to continue work to improve the sustainability implications of the process.

The Council should work with partners to ensure that all data used to inform decision making is subject to scrutiny and, where necessary, to spot-checking. Furthermore, data quality issues around the Housing Benefit and Council Tax Benefit process should be kept to a minimum.

We have noted in recent years a general improvement in the work of Internal Audit and have been able to place the expected degree of reliance upon their work. There were some issues identified in the work of Internal Audit in 2008/09 which have been reported to the Head of Financial services separately. Going forward, the work of Internal Audit should be of a consistent and appropriately high standard.

Managing resources

A summary of the key factors supporting our assessment are set out below. We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	N/A
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	N/A
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

Note: KLoE 3.1 and 3.2 were not relevant for District Councils in this first year of the new Use of Resources regime.

Summary of findings

The Council has had in place since 2006 a People (HR) Strategy that identifies the need for a productive and skilled workforce and how that will be achieved with a measured, targeted action plan. The People Strategy has recently been updated to cover the next 1 to 3 years.

Areas for development:

The Council will need to ensure that it can demonstrate a strategic approach to workforce planning, including an evaluation of whether and how joint workforce planning might benefit service users.

It would be desirable for the Council to be able to achieve a score of at least level 3 in the Equality Standard for Local Government.

Consideration should be given to the development of a total rewards statement for staff.

Conclusion on Use of Resources

Under the Code of Audit Practice we are also required to provide a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Council's arrangements against a set of criteria issued by the Audit Commission. From 2008/09, the Key Lines of Enquiry for the scored Use of Resources assessment (above) also form the criteria for the Use of Resources conclusion.

To reach this conclusion we are required to determine whether the arrangements in place are adequate or not adequate. A score of Level 2 or higher under the KLoEs will usually result in an assessment of 'adequate' arrangements for the purposes of the Code criteria. In reaching our conclusion, we also consider whether the KLoE scores should be adjusted for other factors such as whether the arrangements have been in place for the whole financial year.

We issued an unqualified use of resources conclusion in 2008/09.

Other matters

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 is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this respect.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We are pleased to report that we have not identified any such material weaknesses during the course of our audit procedures.

Treasury Management

During the year, the collapse of the Icelandic banking system, together with the disclosure that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our use of resources assessment we completed a Treasury Management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the

assistance of Council staff, identified no matters for concern.

Expenses

In light of the recent furore nationally on politicians' expenses, we have raised the matter of local expenses with the Council's Section 151 Officer and Head of Internal Audit. These discussions gave no indications that the Council's arrangements in this area were not operating effectively.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code. In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

We have been asked by the Audit Commission to assess the Council's arrangements for managing this transition and have rated them as 'amber' on an red/amber/green scale, on the basis that the implementation project plan has experienced some delays.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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