
Government and Public Sector
***Melton Borough
Council***

Annual Audit Letter

2010/11 Audit

November 2011

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Members of the Overview, Scrutiny and Audit Committee
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30 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to Members on 13 December 2011.

Yours faithfully



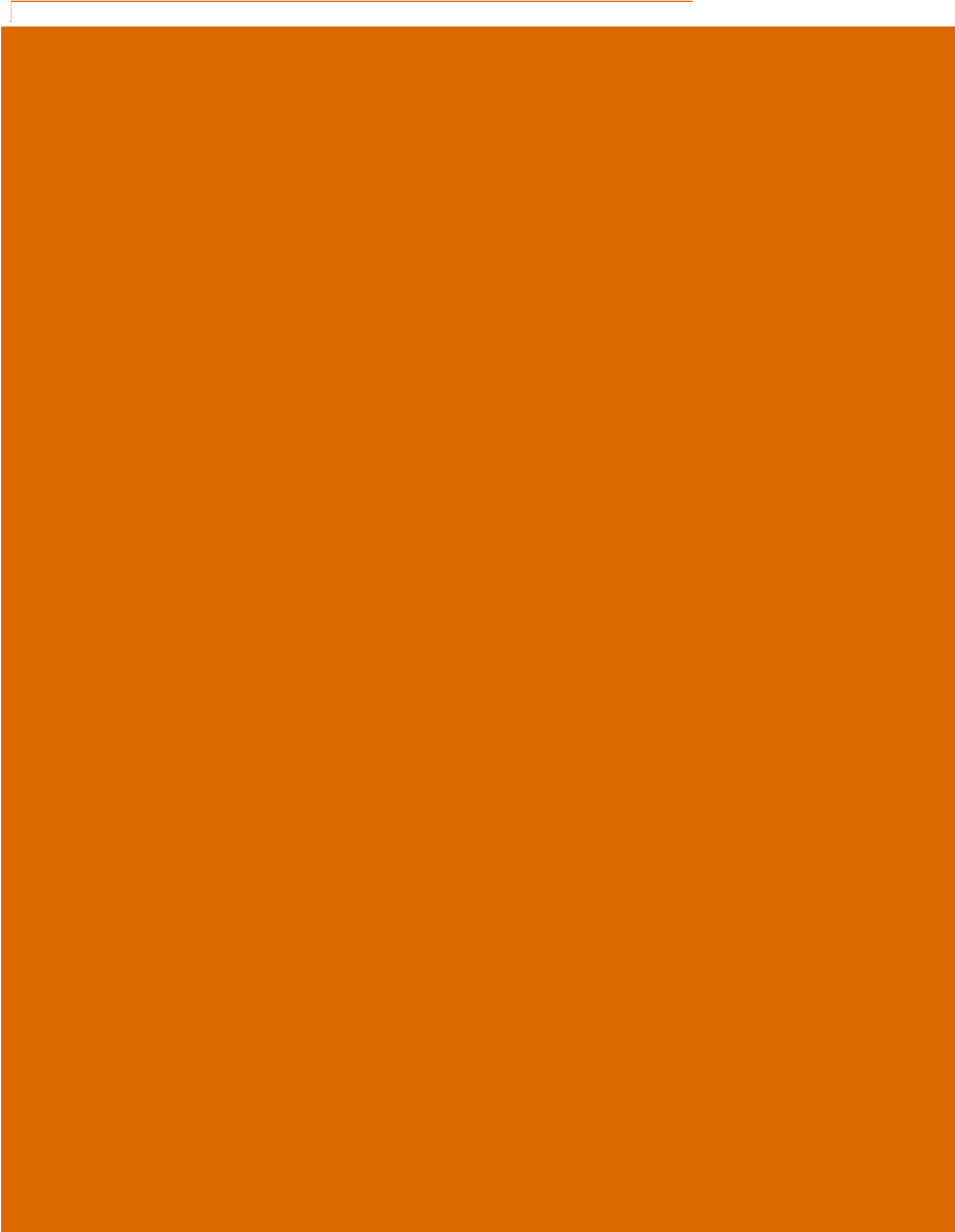
PricewaterhouseCoopers LLP

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

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

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Melton Borough Council ('the Council') that is accessible for the Council and other interested stakeholders.

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

- Interim Controls report;
- Audit opinion for 2010/11 financial statements, incorporating the value for money conclusion; and
- Report to those Charged with Governance (ISA (UK&I) 260).

There were no matters which we are significant in nature to warrant reporting in this letter. Minor control weaknesses that were identified as part of the final audit have been reported separately to the Head of Central Services.

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 Council is responsible for preparing and publishing its Statement of Accounts, accompanied by 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 Annual Governance Statement;
- forming a conclusion on the arrangements that the Council 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 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in May 2011.

Audit Findings

Audit Opinion

We audited the Council's Statement of Accounts in line with approved Auditing Standards.

We reported the detailed findings from our audit of the financial statements to the Council's Audit Committee on 27 September 2011 and issued an unqualified audit opinion on 28 September 2011.

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

Accounts preparation

All local authorities were required to prepare annual accounts under International Financial Reporting Standards (IFRS) for the first time in 2010/11. Preparing draft accounts by 30 June in the first year of IFRS has been challenging for all local authorities. A significant amount of work was completed by the Council to review historic records and to consider the impact of IFRS. We agreed in advance what we would need for our audit and this was ready for us when we arrived.

The Finance Team worked hard to meet the timescales and were helpful in resolving our queries. Compared to other authorities, the Finance Team performed well in preparing for, and restating the financial statements on an IFRS basis.

We would like to thank the Finance Team for their support and assistance during the audit.

Accounting issues

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. One immaterial adjustment was identified which management chose not to adjust. This was in respect of the valuation of Social Housing assets.

A number of disclosure amendments were also identified which were amended appropriately. The volume of disclosure amendments required was higher than previous years. However, this is considered to relate largely to work required to account under International Financial Reporting Standards (IFRS) for the first time in 2010/11.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The work was completed and the audited pack was submitted by the 30 September 2011 in line with the national deadline for submission. Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the financial statements for the year ended 31 March 2011.

Use of resources

Our Use of Resources Code responsibility required 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 2010/11 our conclusion was 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.

Unlike in previous years, we were not required to reach a scored judgment in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

The following paragraphs provide a summary of our findings in respect of our use of resources work.

Financial Resilience

Like all local government organisations, the Council is faced with increased challenges in its medium term financial outlook due to reductions in formula grant. To counteract these reductions, required savings planned within the Council's Medium Term Financial Strategy for the next three years are set at 8.2% of revenue. Given the potential for savings through management restructure and new ways of working in the new build offices, this is considered achievable.

The Council made a contribution to reserves in 2010/11 which provides a significant financial buffer against non delivery of savings schemes, or further policy change which may have an adverse impact on the Council's financial position.

We will continue to review the Council's progress in making savings during 2011/12. In Appendix A we have included some high level benchmarking which indicates the Council's relative cost compared to other district council's of a similar size.

Economy, efficiency and effectiveness

The Council has demonstrated that it has continued to provide services which result in high customer satisfaction. It has also developed its understanding of Value for Money (VfM) and its costs with regard to all services through the creation of a Melton VfM chart. The Council's Performance Management Group has challenged each service self assessment as part of the budget setting process in order to set appropriate service standards and to ensure that efficiencies were identified.

The Council has continued to investigate ways of delivering efficient services and to explore new ways of working alongside partner organisations, particularly within the setting of the new Council offices, Parkside.

Overall, our work has identified no significant issues regarding the Council's arrangements to securing economy, efficiency and effectiveness in its use of resources.

Conclusion

Taking into account all work undertaken in 2010/11 on the Council's use of resources, we were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Internal Control

Accounting systems and systems of internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement.

We did not identify any material weaknesses in the accounting and internal control systems during our audit. Two minor control issues were identified in relation to the fixed asset useful economic lives and budget monitoring. See Appendix A for more details.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

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

National Fraud Initiative (NFI) assessment

Fraud is a significant problem for all organisations. In 2011, the National Fraud Authority estimated that:

- each year, public, private and third sector organizations, as well as individuals lose over £38 billion to fraud;
- fraud costs every adult in the country £765 a year;
- fraud against the public sector costs £21.2 billion a year with frauds against councils accounting for £2 billion of this.

The Audit Commission required us to assess the Council's performance in responding to risk indicators identified by NFI. The Council's approach to NFI is co-ordinated by its Senior Benefits Officer. Good progress had been made by the Council in following up 2008/09 NFI matches, however the Council has made slower progress in responding to the 2010/11 data matches. We believe that this was partly caused by the re-structure of services and re-location of the Council offices. However, we are confident that high priority matches are being managed and will continue to be investigated once the team are settled.

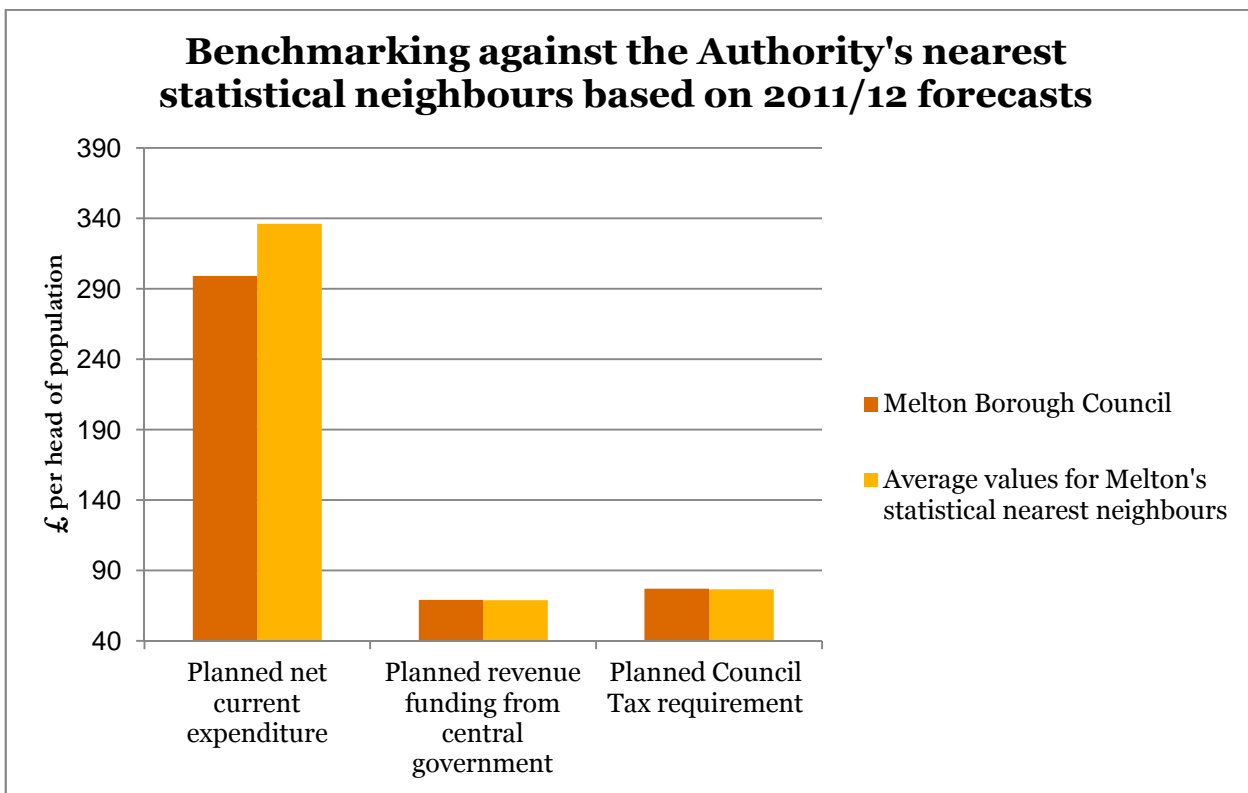
As part of our audit work on the 2010/11 accounts, in line with Auditing Standards, we carried out specific procedures to consider scope for material fraud or misrepresentation of the accounts. This included:

- testing of a sample of manual journal transactions;
- unpredictable procedures such as physical verification of fixed assets; and
- reviewing accounting for revenue streams.

There were no significant matters identified through the work we performed.

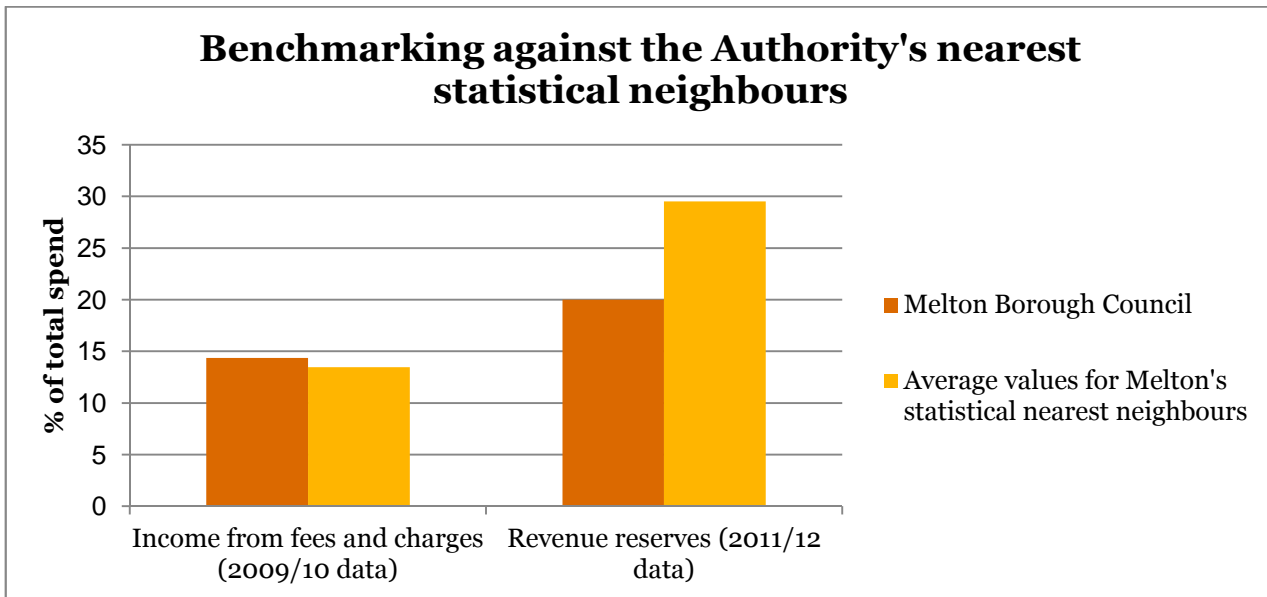
Appendix A: Benchmarking using the Audit Commission’s Value for Money Profile

The following chart provides a summary of the anticipated expenditure and financing for the financial year 2011/2012, as reported in the Revenue Account (RA) return, compared against the Council’s nearest statistical neighbours. The Council’s nearest statistical neighbours are other District Councils of a similar size.

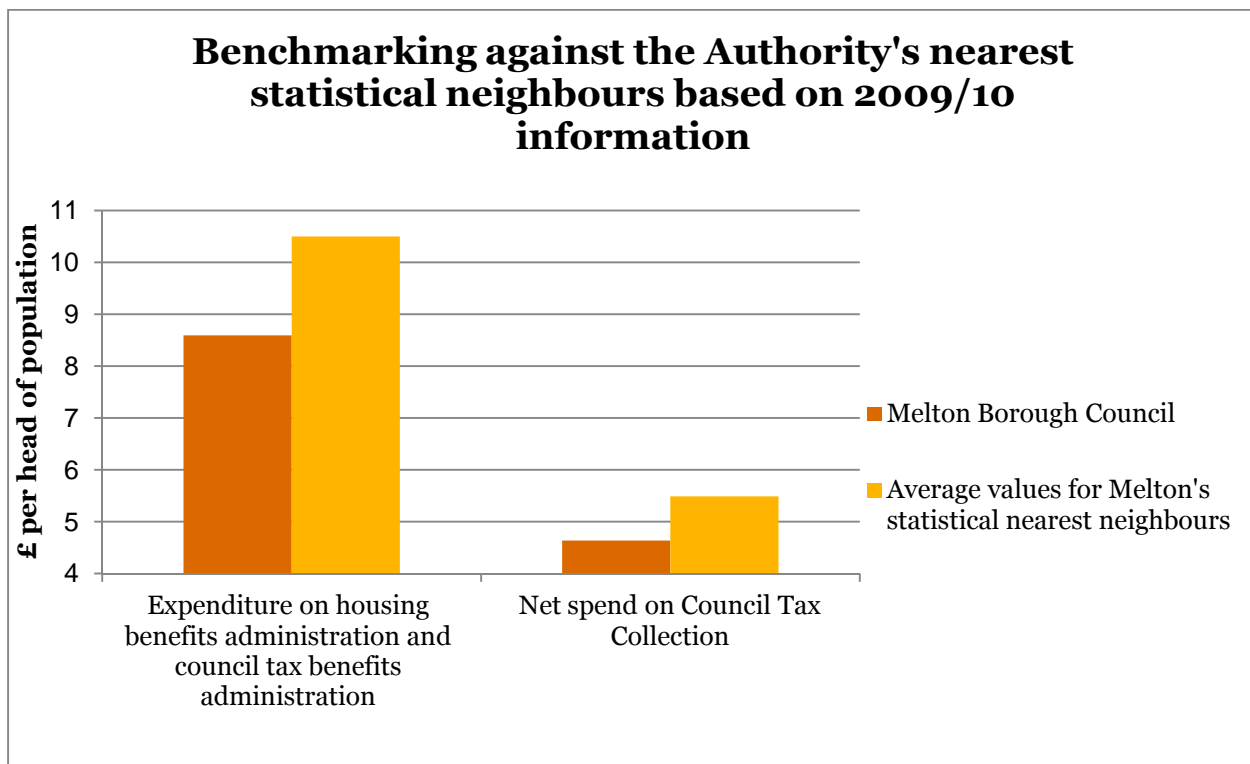


Robust estimates of spend, income and the use of reserves will be critical to prevent unexpected budgetary pressures or deficits. The chart indicates that the Council is 11% below average in respect of forecast net service expenditure whilst its funding from central government and council tax per head is similar to the average.

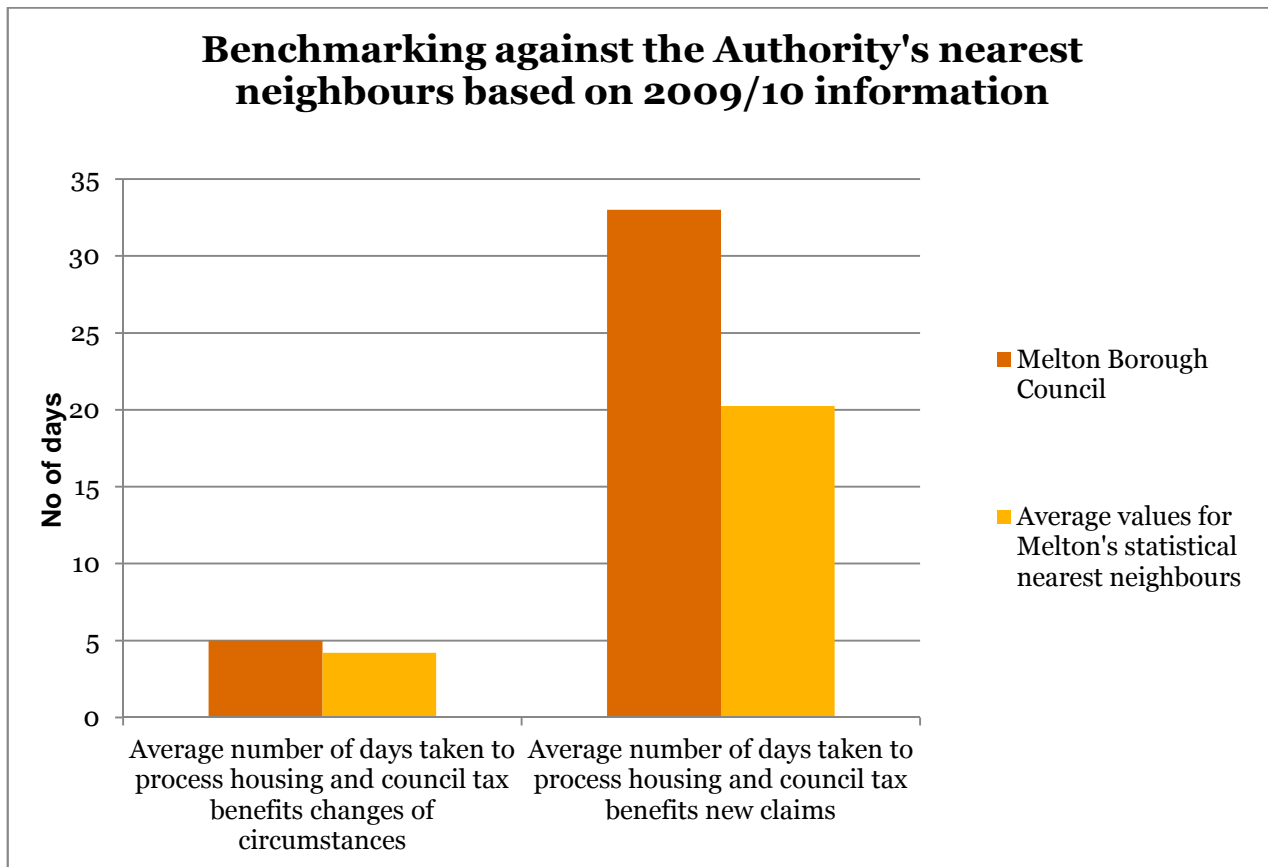
The chart below demonstrates that the Council is holding revenue reserves which are approximately 10% lower than its peers. However, it does collect slightly more in income from fee and charges (14.4% compared to 13.5% as % of total expenditure).



The chart below provides an indication of the Council's efficiency particularly its expenditure per head on benefits and council tax administration and council tax collection. The chart shows that the Council spends less on benefits administration and council tax collection than its peers.



However, the low expenditure on benefits administration is offset by below average performance in respect of processing benefit claims.



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 there under (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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