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Hinckley and Bosworth Borough Council

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

September 2011

2010/11 Audit

pwc

Members of the Finance, Audit and Performance Committee
Hinckley and Bosworth Borough Council
Council Offices
Argents Mead
Hinckley
LE10 1BZ

5 September 2011

Dear Members of the Finance, Audit and Performance Committee,

We are pleased to enclose our report on our audit of Hinckley and Bosworth Borough Council ("the Council") for the year ended 31 March 2011, 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 at your meeting in April 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 29 September 2011. At the time of writing, the key outstanding matters are:

- satisfactory completion of our validation of base data used in the actuarial valuation of the Council's net pension liability – the Council is awaiting information from Leicestershire County Council;
- receipt of information from the Council to provide evidence of the completeness of leases where the accounting treatment has been assessed – we expect to receive this during the week commencing 5 September;
- assessment of information received from the Council in the last few days providing details of updates to medium term financial planning undertaken in recent months;
- receipt and review of a final post-audit set of financial statements;
- receipt of outstanding bank and investment confirmations from the relevant institutions, which we are pursuing;
- completion procedures including subsequent events review;
- receipt of all signed statements and management representation letter; and
- not receiving any electors' questions or objections relating to the 2010/11 financial statements prior to signing our audit opinion.

We look forward to discussing our report with you at your meeting on 12 September.

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.

1. 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 Hinckley and Bosworth Borough Council. As agreed with you previously, "those charged with governance" at the Council are considered to be the members of the Finance, Audit and Performance Committee (formerly the Finance and Audit Services Select Committee).

This report 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 discussed and agreed with you in April 2011.

We have set out below what we consider to be the most significant matters arising from our audit. The scorecard below summarises our view of your accounts and audit performance.

Key

R	Red	– significant improvements required
A	Amber	– some improvements required
G	Green	– no or some minor improvements required

		Comments
Quality of accounts and working papers	A	The Council prepared its accounts on a timely basis and a first draft of the accounts was available at the start of the audit. Working papers were available for audit on time and were of a good standard.
	G	Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some adjustments to the accounts were requested and agreed. A number of disclosure amendments were also identified which have been amended appropriately. The volume of amendments required was consistent with prior years; however, this is considered a relative improvement given the additional work required to account under International Financial Reporting Standards (IFRS) for the first time in 2010/11. Further improvement in the quality of disclosures within the first draft accounts could help improve the efficiency of our audit. We anticipate issuing an unqualified audit opinion.

Readiness for start of audit and availability and responsiveness of staff	G	Key staff were available to address any audit queries both throughout the onsite audit visit and during the subsequent weeks and were flexible in adapting their home working arrangements to meet the requirements of the audit process. The finance team responded positively to our audit questions and requests for information. In our audit plan we highlighted the risk to delivery of the accounts brought about by the challenge of transition to IFRS within the required deadlines, particularly given the other competing priorities for the finance team. We are pleased to report that the Council has met the required deadlines and the IFRS restated balance sheets and comprehensive income and expenditure statement were of a good standard.
Significant audit and accounting issues	G	Our audit identified no significant issues. A small number of audit and accounting issues were identified during our work, which are explained later in this report. None of these matters are material to the financial statements, either individually or in aggregate.
Deficiencies in internal control systems	A G	We reviewed the effectiveness of internal controls over key financial processes. One issue has been identified in relation to the reconciliation of the council dwelling listing maintained by the external valuer back to the Council's records to ensure the accuracy and completeness of the underlying data used in valuing the housing stock. Our work has also identified some minor issues which we have discussed separately with management and are not considered of such significance as to require reporting to you in this report.
Use of Resources/Value for Money conclusion	G	We are currently reviewing documents and information provided by the Council within the last few days in order to assess it against the Audit Commission's criteria for ensuring that the Council has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on this and other work we expect to be able to conclude that you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore expect to be able to issue an unqualified value for money conclusion. We will update the Finance, Audit and Performance Committee on our conclusions at its meeting on 12 September.

An audit of the 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.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

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 Council throughout our work.

2. Updating you on our risk assessment and audit response

Risk Assessment

We reported our planned audit approach to you in April 2011 as part of our 2010/11 audit plan; the audit plan included the risks to be addressed as part of the audit and the work we planned to do in response.

We have summarised our actual responses to the risks included in the audit plan in the table below:

Risks (as identified in the audit plan)	Audit response
Management Override of Controls In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.	We have updated our understanding of the Council's controls around journals and gained some assurance on the Council's arrangements for dealing with staff leavers, in particular controls over physical security and access to systems. Our final accounts procedures included testing of: • the appropriateness of journals processed during the year; • key year-end control account reconciliations, including the bank reconciliation; • transactions recorded after the year-end; and • significant accounting estimates. No instances of management override of controls were identified as a result of this work.
Revenue / Expenditure Recognition There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.	We sought to understand, evaluate and validate the controls relating to income and expenditure and tested them to confirm they were operating effectively during our interim audit visit. During the final audit we evaluated the accounting policies for income and expenditure recognition and tested: • the appropriateness of journal entries and other adjustments; • a sample of detailed income and expenditure transactions; and • accounting estimates for provisions, expenditure, deferred revenues and income. No misstatements were identified in the accounts as a result of this work.

Risks (as identified in the audit plan)	Audit response
2010/11 – the first year of reporting under IFRS	
The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting. Our enquiries have identified that the Council is behind in its plans to implement IFRS and we identify particular audit risks in the areas listed below. ***Leases and lease-type arrangements*** IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately. ***Component Accounting*** The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently disaggregated into their component parts, there is a risk that depreciation charges might be materially understated. ***Accruals for Employee Benefits*** The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but not taken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.	We reviewed the draft financial statements provided by the Council against the requirements of IFRS and considered the adjustments made to the prior year figures in order to support the transition to IFRS. Additionally, a 'hot review' of the financial statements was undertaken by our technical and specialist teams. We have performed specific audit procedures on the following areas which were identified as specific risk areas upon transition to IFRS: • component accounting for non-current assets; • valuations for non-current assets; • lease accounting; • accruals for employee benefits; and • disclosures in the accounts. There were no issues arising from our work that we wish to draw to the attention of members of the Finance, Audit and Performance Committee. Obtaining sufficient audit evidence on the completeness of accounting work in respect of leases under IFRS is outstanding at the time of writing this report.

Risks (as identified in the audit plan)	Audit response
Increased pressures on budgets	
The Council is experiencing increased pressures on many of its budgets as economic conditions have worsened. The comprehensive spending review identified a reduction of 28% over 4 years in the money available to the Department of Communities and Local Government. The recent settlement for Local Government identified a reduction in the adjusted formula grant of 13.8% for 2011/12. This will put further pressure on the Council to achieve efficiencies and make savings. Budget holders may feel under pressure to try to move costs into future periods, or to miscode expenditure to make use of resources intended for different purposes. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year-end actions to ensure that the targets are met. There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice.	We sought to review the Council's arrangements for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness through our work on value for money. We identified no matters to bring to the attention of members of the Committee. We sought also to understand, evaluate and validate budgetary controls and tested them to confirm they were operating effectively during our interim audit visit. During the final audit we evaluated the accounting policies for income and expenditure recognition and tested: • the appropriateness of journal entries and other adjustments; • a sample of detailed income and expenditure transactions; and • accounting estimates for provisions, expenditure, deferred revenues and income. No misstatements were identified in the accounts as a result of this work.
Capital programme and valuations	
The Council is continuing its capital programme in 2010/11 and this involves significant levels of capital expenditure. The Council will need to ensure that assets are brought into use in the correct period and that all capitalised spend is of a capital nature. In addition, the capital programme will need to be carefully monitored to ensure it is adequately financed. The economic climate has continued the uncertainty around the value of many land and building assets, and the risk of such assets being overvalued on the balance sheet remains high. We will expect the Council to have carried out impairment reviews to ensure that assets are not overvalued at the yearend, and to process downward revaluations where appropriate.	We tested a sample of capital expenditure additions and verified that assets have been brought into use in the correct period. Our review of the Council's controls over monitoring capital spend identified no areas for concern. We have reviewed the valuation methods and assumptions applied by the external valuer and concluded that these are appropriate. Validation of base data identified one isolated input error within the industrial estate rental income values provided to the valuer. For Council Dwellings, there is no evidence that a reconciliation between the Council's housing records and the valuer's listing has been performed in recent years. A reconciliation performed at our request identified 70 properties that could not be reconciled. Further information on these issues is provided in section 3 of this report.

Risks (as identified in the audit plan)	Audit response
Impact of the economic climate: bad debt	
The economic downturn is likely to have increased the risk of the Council suffering losses due to bad debt. The Council will need to have assessed the recoverability of debts, and reviewed its bad debt provision, to avoid overstating its debtors.	We have reviewed the adequacy of the Council's provision for bad and doubtful debt and deemed it to be prudent. We also sought to understand and evaluate the Council's controls and processes for reviewing and recovering old debt and found no significant weaknesses to report.
Impact of the economic climate: fraud	
There is evidence that difficult economic conditions lead to increased risk of fraud. The Council is likely to be at greater risk of fraud, by staff, suppliers and by service users.	Our team has maintained a sceptical mindset throughout our detailed testing and assessment of judgemental balances. We found no evidence that the Council has not put proper procedures in place in response to the risk of material fraud.
Local Government Pension Fund	
The largest estimate included in the 2009/10 financial statements was for pension liabilities in respect of employees who are members of the Leicestershire Local Government Pension Scheme (LGPS). The net pension liability at 31 March 2010 was £26.392 million; although it is important to recognise that this is a snapshot at a point in time and therefore is subject to change. The Government announced in June 2010 that it will move to the use of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the measure of price inflation for public sector pension schemes. This decision is likely to result in significant reductions in the liabilities recognised in the financial statements of most local authorities as CPI is typically lower than RPI.	We reviewed the assumptions applied by the actuary and did not identify any issues of concern. The decrease in liability of approximately £11.5m resulting from the change in inflation from RPI to CPI has been accounted for correctly by management. Validation of base data used by the actuary is ongoing at the time of writing this report.

3. 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.

Financial Statements

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion. At the time of writing, the key outstanding matters are:

- satisfactory completion of our validation of base data used in the actuarial valuation of the Council's net pension liability – the Council is awaiting information from Leicestershire County Council;
- receipt of information from the Council to provide evidence of the completeness of leases where the accounting treatment has been assessed – we expect to receive this during the week commencing 5 September;
- assessment of information received from the Council in the last few days providing details of updates to medium term financial planning undertaken in recent months;
- receipt and review of a final post audit set of financial statements;
- receipt of outstanding bank and investment confirmations from the relevant institutions, which we are pursuing;
- completion procedures including subsequent events review;
- receipt of all signed statements and management representation letter; and
- not receiving any electors' questions or objections relating to the 2010/11 financial statements prior to signing our audit opinion.

Accounts preparation

At the April 2011 meeting we reported to the Finance, Audit and Performance Committee our concerns over the capacity of the Finance Team to meet the challenge of transition to IFRS within the deadlines as follows:

The Authority has a large number of areas to review and work on before producing IFRS accounts for 2009/10 and 2010/11. The Authority does have the capability to do this but because there is heavy dependence on a small finance team and tight timeframes there are some concerns around this.

Subsequently, the Finance Team has met these deadlines and produced a quality output, which highlights that the Authority's accounting performance is strong and is to be commended. Our audit identified no material issues with respect to the quality of the accounts presented for audit. Working papers were available for audit on time and were of high quality. Key staff were also available to address any audit queries. The Finance Team responded positively to our audit questions and requests for information.

We have worked with the Finance Team to undertake early work on the IFRS transition and to provide support to them in determining the treatment of some complex and potentially material areas, such as Investment Properties, Component Accounting and Employee Accrued Benefits. A number of disclosure amendments were identified which have been amended appropriately. The volume of amendments required was consistent with prior years; however, this is considered a relative improvement given the additional work required to account under International Financial Reporting Standards (IFRS) for the first time in 2010/11. Further improvement in the quality of disclosures within the first draft accounts could help improve the efficiency of our audit.

The Finance Team worked hard to meet the timescales and were helpful in resolving our queries. We would like to thank the Finance Team for their support and assistance during the audit. We would like to continue to work with you to help further improve and strengthen this process going forward and are always happy to give and receive feedback in order to do so.

Accounting issues

Valuation of non-current assets

The valuation of the Council's property assets is one of the most significant estimates in the financial statements. As at 31 March 2011, the value of such assets included in the Council's financial statements was as follows:

- Council dwellings - £106.3 million
- Other land and buildings - £13.9 million
- Investment properties - £10.0 million

The Council engaged the services of Sturgis Snow and Astill, chartered surveyors and valuers, to assess the value of the properties on management's behalf. In accordance with ISA (UK&I) 620 'Using the work of an expert' we have reviewed the assumptions applied by the valuer and have identified no issues.

We also sought to validate the accuracy of the underlying data upon which the valuation is based for each of the categories of assets referred to above.

Council dwellings

The Council applies the 'beacon principle' in assessing the value of the housing stock. The beacon principle is a common valuation method for housing stock, involving the valuation of a representative sample of properties and extrapolation over other properties that are deemed to have the same characteristics. Guidance issued by the Department for Communities and Local Government (DCLG) recommends the use of regional adjustment factors to reduce market value down to tenanted market value. This factor has decreased from 50% to 34% between 2009/10 and 2010/11 resulting in a reduction of approximately £46m in the carrying value of the housing properties in the Council's financial statements.

A key assumption in using the beacon principle is that all properties are recorded in the correct category of asset according to the property type and number of bedrooms within. The valuer's listing does not reconcile directly to the Council's own housing records and no recent reconciliation of the data had been performed. A reconciliation has now been performed at our request which identified 70 properties that may be misclassified on the valuer's listing due to changes made to the properties in recent years. Using a value of £5,000 as the average discrepancy for each affected property, the valuer has estimated that the net impact upon the valuation of total housing dwellings would be an increase of £130,000.

We are satisfied that any potential misclassification would not give rise to a material misstatement in the total valuation of housing dwelling assets. We have also discussed with the Council potential actions to ensure that this information is updated for future valuations to ensure an accurate extrapolation of beacon property values. Our recommendation is set out in Appendix A.

Other land and buildings

We have validated the gross internal areas used by the valuer in his calculations back to records maintained by the Council. No issues were identified.

Investment properties

The main component of the Council's investment property portfolio consists of industrial estates. Such assets are valued based on the estimated future rental income they will generate. We tested a sample of rental income figures to tenancy agreements and identified one misstatement in the rental values provided to the valuer. This difference, the result of an input error, was deemed to be isolated and the estimated impact on the valuation (of the Greenfields site) of £52,000 has been corrected in the audited financial statements.

Misstatements and significant audit adjustments

Uncorrected misstatements

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature. We agreed with you in April 2011 that misstatements less than £10,000 would be regarded as trivial and would not be reported to you. We are pleased to report that there are no identified misstatements that remain uncorrected within the financial statements.

Adjusted misstatements

The net impact of the adjustments made to the accounts has been to decrease General Fund balances by £49,000 and Housing Revenue Account balances by £32,000, and decrease net assets by £48,000. There are no misstatements that have been corrected by management, other than those reported elsewhere in this report, which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Finance, Audit and Performance Committee to represent to us that it has considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Council's financial statements.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the financial statements in addition to those already identified within accounting issues above.

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 2011 for Hinckley and Bosworth Borough Council was £14.9 million. This represents a decrease from prior year of £11.5 million. This significant movement is a result of a change in the basis of the inflation rate used in public sector pension funds from the retail price index (RPI) to the consumer price index (CPI), as announced by the Government in June 2010.

We have reviewed the reasonableness of the assumptions underlying the pension liability in the accounts in accordance with ISA (UK&I) 540 'Audit of accounting estimates'. Overall we are comfortable with the net effect of the assumptions adopted.

In accordance with ISA (UK&I) 620 'Using the work of an expert', we have also sought to validate the data supplied to the actuary on which to base their calculations. As at the time of writing, we are awaiting this data from Leicestershire County Council for validation.

Valuation of non-current assets

The valuation of non-current assets is a further area of significant judgement within the accounts. Our work on this estimate has been discussed in detail in the Accounting issues section above.

Accruals

Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Council 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.

Going concern
There were no material uncertainties related to events and conditions that may cast significant doubt on the Council's ability to continue as a going concern. 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.

Management representations
The draft of the representation letter that we will be requesting the Chief Executive or his Deputy to sign will be included within the papers for the next Council meeting at which the accounts are to be approved.

Audit independence
We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Council 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 Council 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 one internal control issue that we wish to bring to your attention in relation to the accuracy of data used in valuing the Council's housing assets. This is detailed within Appendix A. The audit work we have conducted has identified a small number of further 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 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE): 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied 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 no areas of concern to report in this context.

Electors' questions or objections
There have been no electors' questions or objections raised regarding the financial statements to date.

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 Council which as auditors we should be made aware of. We discussed with the Finance, Audit and Performance Committee (formerly the Finance and Audit Services Select Committee) its understanding of the risk of fraud and of fraud issues when presenting our Audit Plan. To date we have not identified any 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 the Finance, Audit and Performance Committee's 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 Council in relation to fraud will be included in the letter of representation.

4. Value for Money Conclusion

Economy, efficiency and effectiveness

Our Value for Money Code responsibility requires 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 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.

Unlike in previous years, we have not been 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 have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

All local government organisations are faced with increased challenges in their medium term financial outlook. Hinckley and Bosworth Borough Council had planned for a scenario of reduced formula grants and budgets ahead of other similar organisations, and has delivered on savings plans in recent years to help secure financial resilience. Announcements by the Government over the past year have signalled reductions in funding available to local government bodies that are greater than the worst case forecast in the Council's 2010-13 Medium Term Financial Strategy (MTFS). While seeking to assess the impact of these changes, the Council has not yet formally updated its MTFS following these revised funding announcements, although many others have done. However, we understand that the Council will comprehensively update its MTFS in the coming Autumn. In recent months, updated financial planning documents have been presented to a number of forums within the Council. This information was provided to us in the last few days to assist us in completing our assessment and so we are still finalising our work in this area.

In addition, we have previously sought to understand and assess the Council's arrangements for challenging how it secures economy, efficiency and effectiveness and concluded positively on those arrangements. We are currently refreshing our work in this area to assist in forming our conclusion on this criterion in 2010/11.

We expect to complete our assessment against the two value for money criteria by 9 September and we will update the Finance, Audit and Performance Committee on our conclusions at its meeting on 12 September. Based upon the work that we have been able to complete to date we would expect to be able to conclude positively on these two criteria and give an unqualified conclusion on the Council's use of resources.

5. Audit plan and fees update

Audit plan

We issued our audit plan for 2010/11 and presented it to the Finance, Audit and Performance Committee (formerly Finance and Audit Services Select Committee) in April 2011. There have been no significant changes to our audit plan since this time.

Fees update for 2010/11

We reported to you our fee proposals as part of the Audit Plan for 2010/11 in April 2011. Our actual fees are expected to be in line with our original proposals as follows.

	2010/11 Outturn (£)	2010/11 Fee proposal (£)
Audit fee, including financial statements audit, Use of Resources/Value for Money conclusion, Whole of Government Accounts and IFRS transition work.	114,000	114,000
TOTAL	**114,000**	**114,000**

We have not yet completed our work on the Whole of Government Accounts return as the Council has not yet provided its draft return to us for audit. This will be completed prior to the deadline of 30 September 2011.

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 not undertaken any additional non-audit work which fell outside of the Code of Audit Practice requirements.

Appendices

Appendix A: Internal controls

Reporting requirements

We are required to report to the Council, any deficiencies in internal control that we have identified during the audit. We believe the following matter should be brought to your specific attention. Other less significant issues have been or will be discussed with management.

Deficiency	Recommendation	Management's response
Changes to the structure and layout of council dwellings are communicated to the valuer on an ad-hoc basis. Since the initial data was supplied to the valuer over 10 years ago, there is no evidence that a reconciliation has been performed between the valuer's listing and the Council's housing records to ensure that all changes have been communicated completely and accurately between both parties. A reconciliation performed by the Council at our request identified 70 properties as being potentially misclassified on the valuer's listing. The valuation of council dwellings under the beacon principle relies upon correct categorisation of properties and hence any inaccuracies in the underlying records may result in asset values being misstated.	Following the results of the reconciliation performed at our request, we recommend that those properties identified as discrepancies should be reviewed in 2011/12 to ensure they are categorised correctly in both the Council's and the valuer's listings. A validation process should be embedded into the Council's procedures (perhaps by using existing processes such as housing repairs visits) to verify the correct categorisation of properties on an ongoing basis.	Accept recommendation. Work will be undertaken in conjunction with the Housing Service and the valuer to clarify and correct the classification of properties where there is currently a discrepancy. A system will be put in place where Accountancy are notified by Housing of any changes to property types for onward transmission to the valuer. Accountancy will cross reference with Housing to ensure that no changes have been missed.