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Steve Atkinson MA(Oxon) MBA FIoD FRSA
Chief Executive

Date: 20 January 2012



Hinckley & Bosworth
Borough Council

A Borough to be proud of

**To: Members of the Finance, Audit & Performance
Committee**

Mr PAS Hall (Chairman)
Miss DM Taylor (Vice-Chairman)
Mrs R Camamile
Mr DM Gould

Mr MS Hulbert
Mr JS Moore
Mr K Morrell

Copy to all other Members of the Council

(other recipients for information)

Dear Councillor,

There will be a meeting of the **FINANCE, AUDIT & PERFORMANCE COMMITTEE** in the Committee Room 1, Council Offices, Argents Mead on **MONDAY, 30 JANUARY 2012 at 6.00 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Denise Bonser'.

Denise Bonser
Democratic Services Officer

A G E N D A

1. APOLOGIES AND SUBSTITUTIONS

2. DECLARATIONS OF INTEREST

To receive verbally from members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. **This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the Agenda.**

3. MINUTES OF PREVIOUS MEETING (Pages 1 - 4)

To confirm the minutes of the meeting of the Finance Audit & Performance Committee held on 12 December 2011. Copy attached.

4. EXTERNAL AUDIT PLAN 2011/12 (Pages 5 - 32)

5. WORK PROGRAMME 2011/12 (Pages 33 - 38)

6. DATE OF NEXT MEETING

Please note the next scheduled meeting will now take place on 26 March 2012.

Agenda Item 3

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

FINANCE, AUDIT & PERFORMANCE COMMITTEE

12 DECEMBER 2011 AT 6.30 PM

PRESENT: Mr PAS Hall - Chairman
Miss DM Taylor – Vice-Chairman

Mrs R Camamile, Mr MS Hulbert, Mr JS Moore and Mr JG Bannister (In place of Mr DM Gould)

Also in attendance: Councillor PS Bessant, Mark Jones (Price Waterhouse Coopers LLP) Colin Roxburgh (RSM Tenon) and Chris Williams (RSM Tenon)

Officers in attendance: Ilyas Bham, David Bunker, Malcolm Evans, Louisa Horton, Julie Kenny and Sanjiv Kohli

277 APOLOGIES AND SUBSTITUTIONS

An apology for absence was submitted on behalf of Mr D Gould with the following substitution authorised in accordance with Council Procedure Rule 4.1:

Mr J Bannister for Mr D Gould.

278 DECLARATIONS OF INTEREST

No interests were declared at this stage.

279 MINUTES OF PREVIOUS MEETING

On the motion of Mr Hall, seconded by Mr Moore it was

RESOLVED – the minutes of the meeting held on 31 October 2011 be agreed and signed by the Chairman.

280 ANNUAL AUDIT LETTER

Members gave consideration to the draft annual audit report presented by the Council's external auditors, Price Waterhouse Coopers LLP (PWC). Mr Jones reported that there were no significant audit and accountancy issues that needed to be brought to the attention of Members and Mr Jones stated that in the current economic climate the Council's financial position was positive due to effective forward planning led by Mr Kohli.

There were issues surrounding the Housing base data return that had been discussed in detail with officers and actions had already been taken to address the recommendations from the auditors and an officer group is to be set up to take this forward. Mr Kohli added that a review of the Council's stock condition was also required as part of the move to self financing and therefore the scope drawn up for the review and survey of Council houses will seek to satisfy both the requirements for the base data return and to support the HRA business case.

Mr Moore asked if the valuation stated on page 13 of the report had been adjusted up or down and was informed that it was down. It was agreed that the report be amended to reflect this.

RESOLVED – the Committee endorse the report with the agreed amendment.

281 INTERNAL AUDIT PROGRESS REPORT

As requested by the Committee at its last meeting, a further audit had been undertaken of the risk management procedures. Mr Roxburgh reported that good progress had been made on all the recommendations highlighted in the last report.

The following question was raised on the remainder of the report:

Income and Debtors

A Member enquired as to what procedures were used to determine the write off of debts. The Deputy Chief Executive (Corporate Direction) stated that this varied as each case was assessed individually. It was agreed that the procedures undertaken to determine write offs would be brought to the next meeting.

RESOLVED – the Committee endorsed the report.

282 PERFORMANCE MANAGEMENT FRAMEWORK

The Committee was provided with an update on the Council's position on performance indicators and strategic risks.

Members requested that as black and white copies were supplied to Members to save on cost could a word coding system be used on appendices in place of the colour coding which appeared as shading. This was agreed.

RESOLVED – the report be noted.

283 CAPITAL PROGRAMME 2011/12 TO 2013/14

Members were presented with the Capital Programme from 2011/12 to 2014/15. It was explained that due to the constraints on capital funding the programme only included 'rolling' projects and that there were no additional new regeneration projects for this period.

The following points were raised in response to the report:

- At 3.3 of the report a Member asked if an audit trail could be produced to account for the monies raised from the Montgomery Road project as this receipt needed to be spent on regeneration (or housing) projects only. It was noted that this had been through the audit process and was available for Members as requested. Members requested that a full list of how the money has been spent be circulated to all Members of the committee.
- Members asked to be shown the breakdown of refurbishment works should this option be agreed by Council for the Leisure Centre. Officers agreed to produce a breakdown and circulate to all Members of the committee.

RESOLVED

- (i) Members agreed that option 4.1 be put forward to Council;
- (ii) Members agreed with the bids set out in the report
- (iii) Members note the financial implications set out in section 7.

284 AUDIT RECOMMENDATIONS TRACKING

Mr Bannister left the meeting at 8pm.

The Committee were informed that all audit recommendations had been implemented.

RESOLVED – the report be noted.

285 REVENUE & CAPITAL OUTTURN 2ND QUARTER 20.11/12

Members were informed of the revenue and capital outturn at the end of the second quarter 2011/12.

RESOLVED – the report be noted.

286 WORK PROGRAMME 2011/12

Members had no comments on the current work programme.

(The Meeting closed at 8.12 pm)

Chairman

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Hinckley and Bosworth Borough Council

External Audit Plan 2011/12

Government and Public
Sector

January 2012

DRAFT



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

14 January 2012

Members of the Finance, Audit and Performance Committee,

We are delighted to present to you our external audit plan 2011/12, which includes an analysis of our assessment of significant audit risks, our proposed audit strategy, audit and reporting timetable and other matters. Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many challenges affecting Hinckley and Bosworth Borough Council.

We look forward to discussing our plan with you at your meeting on 30 January 2012. In the meantime, if you have any questions regarding matters in this document please contact Mark Jones on 0121 232 2503.

Yours faithfully

PricewaterhouseCoopers LLP

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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 and on the Audit Commission’s website. 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 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.

Introduction

Purpose

This audit plan has been prepared to provide the officers and members of Hinckley and Bosworth Borough Council ('the Council') with information about our responsibilities as external auditors and how we plan to discharge them.

The Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Council. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice.

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in a later section of our Audit Plan recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

Code of Audit Practice and Statement of Responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice ('the Code') which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies ('the Statement') which was also updated in March 2010. Both documents are available from the Chief Executive of the Council or the Audit Commission's website.

Scope of the audit

As mentioned previously, we will conduct our audit in accordance with the relevant requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies published by the Audit Commission.

Statement of Accounts

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ the Local Authority Scotland Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of “Delivering Good Governance in Local Government: Framework” published by CIPFA/The Society of Local Authority Chief Executives (SOLACE) in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

Use of resources/Value for money conclusion

Under the Code we are also required to report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

As was the case in 2010/11, we will perform the work we consider necessary to allow us to give our statutory use of resources/value for money conclusion based on the following two criteria specified by the Audit Commission:

- that the Council has proper arrangements in place for securing financial resilience; and
- that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Other reporting requirements

In addition, we are also required to consider:

- whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;

- whether we believe that the Council or one of its officers:
 - (i) is about to make or has made a decision which involves or would involve the Council incurring expenditure which is unlawful;
 - (ii) is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
 - (iii) is about to enter an item of account, the entry of which is unlawful ;and we need to issue an advisory notice under s19A of the 1998 Act.
- whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

Audit approach and risks

Audit approach

Audit of accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB).

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your organisation and is risk-driven. As such we consider the following areas when developing our audit approach:

- key risks arising from developments within the Council or from external factors such as national policy, regulatory or accounting changes;
- the robustness of the control environment, including the governance structure, the business environment, the management control structure, the information systems and processes and the financial reporting procedures in operation; and
- understanding the control activities operating over key financial cycles which are central to the production of the year-end financial statements and validating key controls considered relevant to the audit approach.

The main features of our audit approach are set out in Appendix 1.

Responsibilities with respect to fraud

The preparation of the financial statements is the responsibility of management. Our responsibility as auditors is to express an opinion on those financial statements. Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate the possibility.

Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected. Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable assurance of detecting errors or fraud that would have a material effect on the financial statements. We will inform you of any material errors, fraud or illegal acts that come to our attention. See Appendix 2 for further consideration of fraud risks.

Working with internal audit: the 'managed audit'

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Audit risks

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources (value for money) audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards. In addition, we also identify other risks affecting the Council and our response to these risks. Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

We have identified the following risks that are relevant to our 2011/12 audit of Hinckley and Bosworth Borough Council. Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. We have 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.
-
- **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.

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Fraud and management override of controls</p> <p>ISA (UK&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.</p> <p><i>“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31.</i></p>	FS	<p style="text-align: center;">●</p> <p style="text-align: center;">Significant</p>	<p>We will consider the level of assurance provided by Internal Audit regarding management’s ability to override controls.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances identifying any bias represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform ‘unpredictable’ procedures. <p>We may perform other audit procedures if necessary.</p>

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Recognition of revenue and expenditure</p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p><i>“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.</i></p> <p>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>	FS	<p style="text-align: center;">●</p> <p style="text-align: center;">Significant</p>	<p>We will seek to understand and evaluate relevant revenue and expenditure controls and test controls to confirm they are operating effectively.</p> <p>We will:</p> <ul style="list-style-type: none"> ● seek to place reliance on internal audit work on key income and expenditure controls; ● evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting; ● test the appropriateness of journal entries and other adjustments; and ● review accounting estimates for income and expenditure, for example, provisions.

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Valuation of properties, including housing stock</p> <p>Property, plant and equipment (PPE) represents a large balance in the Council’s balance sheet. The Council measures its properties at fair value, which involves a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us to undertake certain procedures on the use of external expert valuers and on the assumptions underpinning fair value estimates.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> • the accuracy and completeness of detailed information on assets; • whether the Council’s assumptions underlying the classification of properties are appropriate; • whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value; and • the valuer’s methodology, assumptions and underlying data, and our access to these. <p>The Council’s housing stock is valued by applying the ‘beacon principle’, involving the valuation of a representative sample of properties and extrapolation over other properties that are deemed to have the same characteristics. In 2010/11 we found that the valuer’s listing categorising properties according to property type and number of bedrooms did not agree with the Council’s records in all cases. This identified 70 properties as being potentially misclassified on the valuer’s listing.</p>	<p>FS</p>	<p>● Other</p>	<p>Following our work in 2010/11, we recommended that those properties where there were discrepancies between the listings of housing properties should be reviewed in 2011/12 to ensure they are categorised correctly in both the Council’s and the valuer’s listings.</p> <p>We also recommended that 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. This recommendation was accepted, with the plan being for;</p> <ul style="list-style-type: none"> • work to be undertaken in conjunction with the Housing Service and the valuer to clarify and correct the classification of properties where there was a discrepancy; and • a system to 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. <p>We will follow up the recommendations made in last year’s ISA 260 report on the audit of the Council’s 2010/11 financial statements to ensure that agreed actions have been implemented.</p> <p>We will also perform audit procedures on valuations undertaken in 2011/12 to examine the underlying assumptions used by the valuer when undertaking the valuations and the accuracy and completeness of the accounting entries to reflect the results of the valuation exercise in the Council’s records and in the financial statements.</p>

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Update of Medium Term Financial Strategy (MTFS) and Savings Plans</p> <p>All local government organisations are faced with increased challenges in their medium term financial outlook. During 2011 the Council continued to update its financial planning to respond to the latest information available from the Government. In forming our Use of Resources conclusion in 2010/11 we concluded that the Council had made adequate arrangements for securing financial resilience.</p> <p>However, the Council had made a conscious decision to delay the finalisation of an updated Medium Term Financial Strategy (MTFS) until the local government finance settlement 2012/13 was announced. This announcement was made in December 2011. The Council is now updating its MTFS and it is scheduled to be approved in February 2012.</p> <p>There continue to be a number of risks to the delivery of the Council's financial plans, particularly in respect of:</p> <ul style="list-style-type: none"> • slippage - the Council may not be able to achieve the savings planned either from service reductions or through efficiencies; • timing - the timing of planned savings, service reductions and funding announcements may impact delivery against the MTFS; and • assumptions - if assumptions turn out to be incorrect, or significant policy changes are made, this might impact on the Council's ability to deliver a balanced budget over the period of the plan. 	<p>UoR</p>	<p style="text-align: center;">● Other</p>	<p>We will review the updated MTFS and any associated savings plans. We will consider the assumptions that the Council has made when updating its MTFS, examine how these compare to other authorities, and consider the Council's arrangements for securing economy, efficiency and effectiveness in its financial planning.</p> <p>We will continue to review savings plans and investigate the reasons behind any significant variations from the plan.</p> <p>We will specifically consider:</p> <ul style="list-style-type: none"> • the Council's record in delivering savings; • the governance structure in place to deliver the targets; • the level and extent of accountability; • project management arrangements; • monitoring and reporting; • progress on delivering the plan; and • how the assumptions applied in your plan compare with other organisations and best practice.

Risk	Financial Statements (FS)/Use of Resources (UoR)	Categorisation of risk (Significant or Other)	Audit approach
<p>Housing repairs service</p> <p>In September 2011 the Council brought the management and delivery of its housing repairs service back in-house; this service having previously been delivered by Wilmott Dixon Partnerships (formerly Inspace) in recent years.</p> <p>This change in service provider required the introduction of revised arrangements for governance, processes and systems for managing the service.</p>	<p>UoR</p>	<p>● Other</p>	<p>We will seek to understand and evaluate the controls that management has put in place to manage the operation of its housing repairs service, including the financial planning of planned and responsive repairs and the monitoring of those budgets. In doing so, we will seek to review and rely upon any work performed by the Council’s internal auditors in this area.</p>

There is also a potential risk that we have not raised as a specific risk to our audit for 2011/12 at this stage but regarding which we will be keeping a watching brief. We may need to revisit our Audit Plan for the 2011/12 audit depending upon how this development progresses in the coming months:

MIRA, the automotive research and testing facility to the West of Hinckley, has been awarded £19.4 million by the Government’s Regional Growth Fund. We understand that these monies will be channelled through Hinckley and Bosworth Borough Council, but at the time of writing this Audit Plan the Council has not received a formal notification letter to this effect. We will keep this matter under review and we will update the Finance, Audit and Performance Committee if we believe this development presents an additional risk to our 2011/12 audit.

Materiality

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions. Our overall materiality is calculated using a ‘rule of thumb’ of 2% of the Council’s gross expenditure (net of impairments); this represents the level at which we would consider qualifying our audit opinion. However, our audit work is performed around a lower materiality level of 75% of this value.

During the course of our audit work it is not unusual to find relatively small misstatements which do not raise significant concerns for those charged with governance. ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. The ISA suggests a benchmark of 5% of our audit materiality level, which would suggest a ‘clearly trivial’ level of approximately £58,000.

Last year, we agreed with the (former) Finance and Audit Services Select Committee that we would report errors detected over a threshold of £10,000. The threshold set for reporting could be further increased from £10,000 up to £58,000. In order to help achieve the necessary efficiencies implicit in the reduction in fees set out later in this Audit Plan, we propose increasing the reporting threshold for unadjusted misstatements to a level much closer to that allowed by auditing standards; we propose that this threshold be raised to £50,000 for the 2011/12 audit. We would welcome the Committee’s views on these proposals.

Communications Plan and Audit Timetable

ISA (UKI) 260 ‘Communications of audit matters with those charged with governance’ requires auditors to plan with those charged with governance the form and timing of communications with them. We have agreed with you previously that ‘those charged with governance’ in the case of the Council is the Finance, Audit and Performance Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service.

Below is an overview of the audit process including timelines for reporting to the Finance, Audit and Performance Committee.

Timetable

<i>Month/Deadline</i>	<i>Audit activity</i>
October 2011 - December 2011	External Audit planning and drafting of 2011/12 Audit Plan
January 2012	Presentation of Draft 2011/12 External Audit Plan to the Finance, Audit and Performance Committee
February /March 2012	Interim audit
31 March 2012	PwC to discuss and agree the schedule of deliverables and the deadlines for delivery of the draft Statement of Accounts for audit
30 June 2012	Complete Statement of Accounts made available to auditors including Annual Governance Statement and the Explanatory Foreword
July/August 2012	Statement of Accounts’ audit
September 2012 (date to be confirmed)	Presentation to Finance, Audit and Performance Committee of ISA (UK&I) 260 Report to those Charged with Governance on the audit of the Statement of Accounts
30 September 2012	Target date for issue of: <ul style="list-style-type: none"> • Audit Opinion on the Statement of Accounts; • Use of Resources/Value for Money Conclusion; and • Opinion on the Whole of Government Accounts return.
30 November 2012	Issue of Annual Audit Letter

Audit Engagement team and independence

It is our intention that wherever possible staff work on the Hinckley and Bosworth Borough Council audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

Your audit team has been drawn from our government and public sector team in Birmingham. Your team consists of the following key members, but is further supported by our specialists both in the sector and across other services.

Audit team	Responsibilities
<p>Mark Jones Engagement Leader (See note re rotation of Engagement Leader below *)</p> <p>0121 232 2503 mark.anthony.jones@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK & I) 260 report and the Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Ian Ratcliffe Engagement Manager</p> <p>0121 265 5890 ian.ratcliffe@uk.pwc.com</p>	<p>Manager on the assignment responsible for the overall control of the audit engagement including delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Is also responsible for drafting the Audit Plan, ISA (UK & I) 260 report and Annual Audit Letter.</p>
<p>Sophia Mouyis Team Leader</p> <p>01509 604050 sophia.mouyis@uk.pwc.com</p>	<p>Team leader on the assignment responsible for managing our accounts work, including the audit of the statements of accounts and the governance aspects of the use of resources work.</p>

* Engagement Leader rotation

As previously communicated to you, the Audit Commission amended its rotation rules for Engagement Leaders to allow Engagement Leaders to serve for up to 7 years in total (5 years previously), with the approval of the Audit Commission. The Audit Commission approved the request for Mark to serve as Engagement Leader to the Council for a further 2 years following discussion with, and agreement of, the Chief Executive and Deputy Chief Executive (Corporate Direction) on behalf of the Council. The 2011/12 audit will be Mark's seventh year as Engagement Leader.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

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Audit fees

2011/12 audit fees

The Audit Commission has provided audit fee levels for local government bodies for the 2011/12 financial year, based on the fee for 2010/11 adjusted for the reductions set out in the final work programmes and scales of fees documents available on the Commission's website. The scale fee for the audit of the Council is £108,300, a reduction of 5% compared to the 2010/11 fee of £114,000.

The scale fee takes into account assessments we made in 2010/11 about audit risk and complexity, and the Commission expects variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

Our assessments about audit risk and complexity have been based on the following assumptions:

- officers meeting the timetable of deliverables, which we will agree in writing;
- we are able to place reliance, as planned, upon the work of internal audit;
- we are able to draw comfort from your management controls;
- we are able to place reliance on the work of inspectors and internal audit in respect of our use of resources/value for money conclusion;
- no significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based;
- you providing a fully supported and robust self-assessment against the use of resources criteria;
- the Finance, Audit and Performance Committee agreeing to only those misstatements above £50,000 being reported to them; and
- our use of resources/value for money conclusion and accounts opinion being unqualified.

In addition, we have assumed that the planned changes in personnel and structures in the Council's finance team during the spring and summer of 2012 will not adversely affect the Council's ability to deliver its accounts and audit working papers to the required timescales or quality.

If these assumptions prove to be unfounded or other changes in audit risk or complexity are identified, we will seek a variation order to the agreed fee, to be discussed and agreed with you.

Certification of grant claims

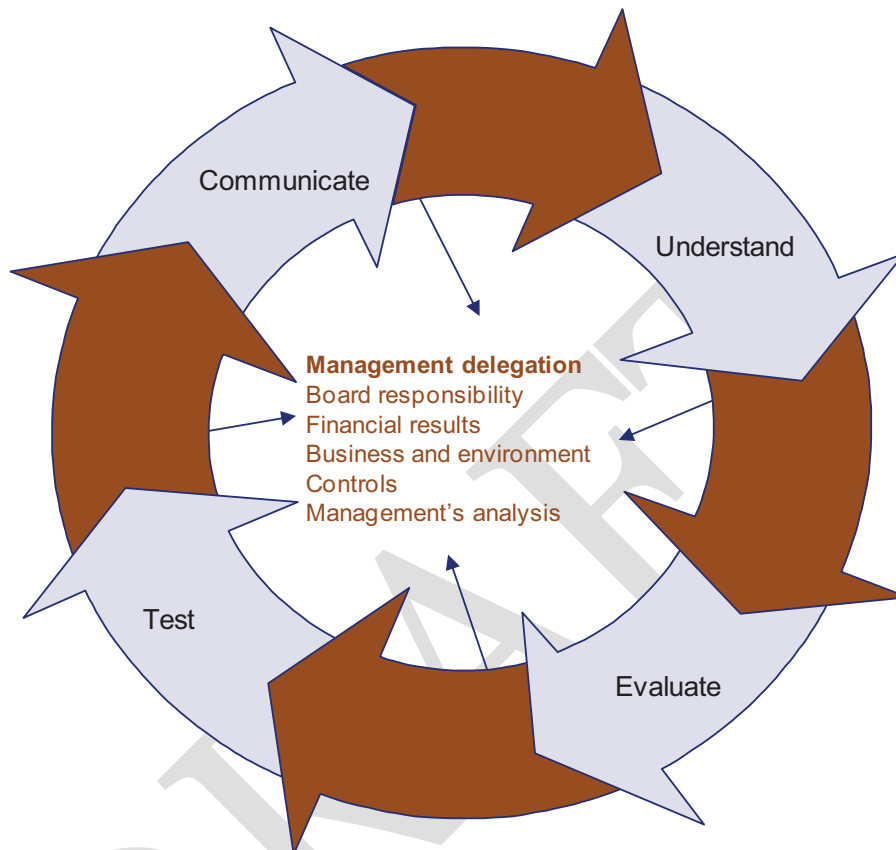
Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Deputy Chief Executive (Corporate Direction) and his team.

Appendices

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Appendix 1: Audit Approach

We continue to adopt a risk-based audit methodology and strategy to align this even more closely with management's assessment of the business risks to ensure that appropriate processes and controls are in place. The main features of our approach are set out below:



We obtain our audit evidence from the following:

- meetings/discussions with senior management to understand the business, the risks and the control processes upon which management rely, building on our previous knowledge and experience;
- evaluation of how well management manages the business, with a focus on key operational targets;
- testing of that assessment/gathering evidence;
- assessment of the materiality of each financial component, the risks attached, the effectiveness of management's control processes and the relevance to the financial statements; and
- analytical review and other substantive procedures, as necessary.

Appendix 2: Risk of Fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors’ responsibility

Our responsibilities are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management’s responsibility

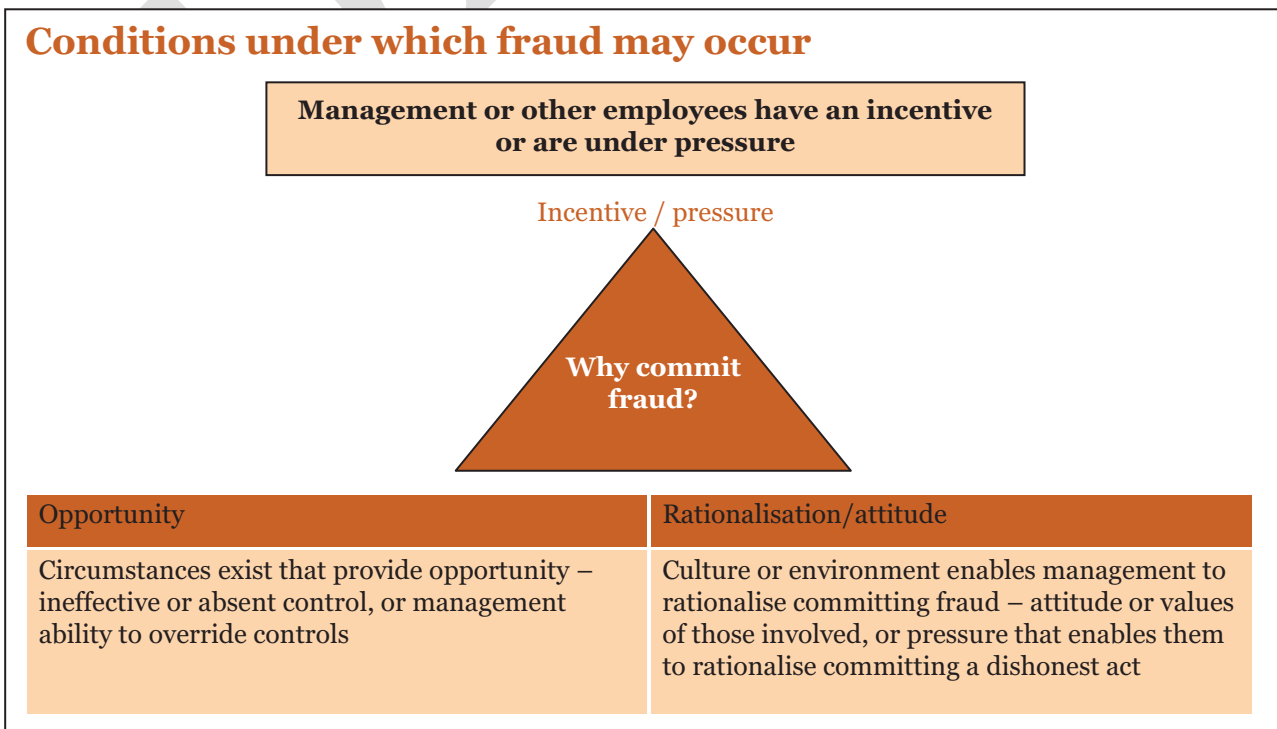
Management’s responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity’s culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Finance, Audit and Performance Committee

Your responsibilities as part of your governance role are:

- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

We enquire of the Finance, Audit and Performance Committee:

- Whether you have knowledge of fraud, whether it is actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols /procedures have been established between those charged with governance and management to keep you informed of instances of fraud, whether they are actual, suspected or alleged?

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Appendix 3: Recent developments

Accounting developments

New Requirements in the Code of Accounting Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in spring 2011 setting out the following substantial changes in accounting requirements for local authorities:

- For the first time, in the 2011/12 Statement of Accounts the Code requires authorities to present information about the **heritage assets** that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Typical examples include historic buildings, civic regalia, museum and gallery collections and recordings of historic events. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.

Where it is not practicable to obtain a valuation and there is no record of their historical cost, assets are to be omitted from the Balance Sheet. However, in these circumstances notes will be required explaining the significance and nature of those assets that are not reported in the Balance Sheet.

The Council will therefore need to assess whether it has any substantial portfolio of heritage assets. If so, it will determine whether an appropriate and relevant valuation can be made for the items in the portfolio and then obtain any valuations required. New notes to the accounts will also need to be prepared setting out the Council's policy for the acquisition, preservation, management and disposal of heritage assets.

- There is a new requirement for a disclosure note setting out the number of **exit packages** agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. The total cost of packages in each band must also be disclosed. (There will be scope to combine bands if this is necessary to ensure that individual packages cannot be identified.)
- The **related parties** disclosures have been simplified where the Council has transactions with government departments and agencies, NHS bodies and other local authorities, limiting disclosure to individually or collectively significant transactions.

Carbon Reduction Commitment

2011/12 is the first year that the Council is required under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. Although the surrender in relation to 2011/12 will take place in 2012/13, the Council will need to account at 31 March 2012 for the consequences of the emissions it has made in 2011/12.

When this report was issued there was no specific guidance available to local authorities as to how CRC obligations should be reflected in the Statement of Accounts. However, it is probable that provisions will need to be made at 31 March 2012 in relation to any costs likely to be incurred in meeting obligations relating to 2011/12 emissions.

Housing Revenue Account (HRA) Self-Financing

The Housing Revenue Account Subsidy system is to be replaced by a devolved system of council housing finance in 2012/13. The devolved system will involve each housing authority taking on a level of HRA debt determined by the Government which will generate revenue charges that, taken together with other revenue expenditure, should be supportable from rental income without need for government support.

HRA debt levels are due to be adjusted on 28 March 2012 by authorities either making a payment to the Government (to increase their existing level) or having Public Works Loan Board loans settled by the Government (to reduce their existing level). The Council is expecting to make a payment to the value of £67,993,000. The Council will need to recognise the implications of the payment in the HRA financial statements for 2011/12 and the 31 March 2012 balance sheet and provide relevant explanatory notes about the preparations for self-financing represented by the payment.

Developments in auditing

Highways Infrastructure

Arrangements will not be confirmed by the Audit Commission until after the end of the 2011/12 financial year, but it is possible that the scope of our opinion on the Whole of Government Accounts return may be extended to include aspects of the information that the Council might be required to provide on the depreciated replacement cost of highways infrastructure assets. We will advise the Council promptly of any new responsibilities that might be confirmed once the Audit Commission arrangements are finalised.

Appendix 4: Other engagement information

The Audit Commission appointed us as auditors to Hinckley and Bosworth Borough Council and the terms of our appointment are governed by:

- the Code of Audit Practice; and
- the Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Appointed auditor

Mark Jones, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Mark is not a partner.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the engagement leader responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that engagement leader, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

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In the event that, pursuant to a request which Hinckley and Bosworth 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. Hinckley and Bosworth Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Hinckley and Bosworth Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Hinckley and Bosworth 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.

This report has been prepared for and only for Hinckley and Bosworth Borough Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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A Borough to be proud of

Hinckley & Bosworth
Borough Council

Finance, Audit & Performance Committee Work Programme 2011/2012

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Agenda Item 5

FINANCE, AUDIT & PERFORMANCE COMMITTEE WORK PROGRAMME 2011/2012

1. Internal Audit Work Programme

- Consider each Internal Audit Block and recommendations and ensure that recommendations are implemented and followed up

2. Financial and Budget Monitoring

- Final Accounts 2010/11 (July 2011)
- Quarterly Budget Monitoring (September & December 2011, March 2012)
- Capital Programme (December 2011)
- Budget Proposals / Council Tax (February 2012)
- Prudential Code (March 2012)
- Treasury management Report (May 2012)

3. Corporate Management

- Risk Management (December 2011)
- Annual Audit Plan (March 2012)
- ISA260 Annual Audit Letter (September 2011)
- Annual Audit Report (May 2012)

FINANCE, AUDIT & PERFORMANCE COMMITTEE

Finance, Audit & Performance Committee – Monday 30 January 2012					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Internal Audit Progress Report	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Internal Audit
	Revenue Budget and Council Tax Proposals 2012/13	Ensure Value for Money and allow backbench input into the Budget and Council Tax setting process	Ensure the Executive delivers good value improving services	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Accountancy Manager
	Capital Programme 2011/12 to 2013/14	Backbench input to Capital Programme	Ensure the Executive provides good value improving services	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Accountancy Manager
	Treasury Management Performance report	Ensure value for Money	Ensure the Executive delivers good value improving Services	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Accountancy Manager
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2011/12	To review the Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance, Audit & Performance Committee – Monday 26 March 2011					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Internal Audit Progress Report	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Internal Audit
	Budget monitoring – 3 rd quarter	Quarterly update report	Ensure Members are aware of current issues with regard to the budget	Thriving Economy	Deputy Chief Exec (Corp. Direction) / Accountancy Mang.
	Annual Audit and Inspection Letter	Review work of External Auditors	Matters reported by External Auditors are considered by Elected members	All Corporate Aims	Deputy Chief Exec (Corp. Direction)
	Prudential code	Ensure value for Money	Ensure the Executive delivers good value improving Services	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Accountancy Mang.
	Annual Audit Plan	Provide the plan for external audit	Plan approved	All Corporate Aims	Deputy Chief Executive (Corp. Direction)
	Service Improvement Plan monitoring – 3rd quarter	Quarterly update report	Ensure Members are aware of status of Service Improvement Plans, PIs and Corporate Risks with regard to service delivery	All Corporate Aims	Deputy Chief Executive (Corp. Direction) Principal Officer – Performance & Risk
Committee Management Issues	Work Programme 2011/12	To review the Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance, Audit & Performance Committee – Monday 30 April 2011					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Internal Audit Progress Report	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Internal Audit
	Annual Audit Report 2011/12 (internal)	To provide assessment of internal control	Assurance of internal control and risk management	All Corporate Aims	Deputy Chief Executive (Corporate Direction) / Internal Audit
	Treasury Management Performance report	Ensure value for Money	Ensure the Executive delivers good value improving Services	All Corporate Aims	Deputy Chief Exec (Corp. Direction) / Accountancy Manager
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2011/12	To review the Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

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