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Government and Public Sector

Hinckley and Bosworth Borough Council

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

August 2012

2011/12 Audit

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

31 August 2012

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 2012, 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 set out in our Audit Plan, which was discussed and agreed with you at your meeting in April 2012. 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 and an unqualified conclusion on your use of resources before the end of September 2012. At the time of writing, the key outstanding matters are:

- receipt of rental agreements to support the valuation of two investment properties as well as a response to an outstanding query on the valuation of one property;
- receipt and review of any amendments to the housing stock valuation once this information is available to the Council;
- complete our review of the final post-audit set of financial statements;
- receipt of outstanding bank confirmations from the relevant institutions, which we are actively 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 2011/12 financial statements prior to signing our audit opinion.

We look forward to discussing our report with you at your meeting on 10 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.

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 Audit Plan that we discussed and agreed with you in April 2012.

Significant matters/audit scorecard

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	G	The Council prepared its accounts on a timely basis and a first draft of the accounts was available at the start of the audit. We are pleased to report that the draft financial statements for 2011/12 presented to us for audit were of an appreciably higher quality than has been the case in recent years, for which the Finance Team should be commended. Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit. Working papers were available for audit on time and were of a good standard. We have no unadjusted misstatements to report greater than the £50,000 threshold that we agreed with the Finance, Audit and Performance Committee in April 2012. There are also no adjusted misstatements to report. A number of disclosure amendments were identified all of which have been discussed and agreed with management. We anticipate issuing an unqualified audit opinion on the 2011/12 financial statements.
Readiness for start of audit and availability and responsiveness of staff	G	Key staff were available during the audit to address any audit queries and the Finance Team responded positively to any audit questions and requests for information.

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 in detail later in this report.
Deficiencies in internal control systems	G	We have not identified any significant issues with respect to the effectiveness of the Council's internal controls this year. In our 2010/11 report to you we identified an issue regarding the reconciliation of the dwelling listing maintained by the Council's external valuer to the Council's own records to ensure the accuracy and completeness of the underlying data used in valuing the housing stock. The Council has taken appropriate steps to act upon the concerns that we raised at that time and is in the process of undertaking a full survey of all of its properties to ensure that it has up to date information for each property.
Use of Resources/Value for Money conclusion	G	We expect to complete our assessment against the two value for money criteria by 7 September 2012 and we will update the Finance, Audit and Performance Committee on our conclusions at its meeting on 10 September 2012. Based upon the work that we have completed to date we expect to be able to conclude positively on the two criteria we are required to assess and give an unqualified conclusion on the Council's use of resources.

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 its standing guidance to auditors.

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: Financial Statements

We reported our planned audit approach to you in April 2012 as part of our 2011/12 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 to those risks.

We have summarised our responses to the risks included in the Audit Plan in the table below:

Financial Statements 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 assurance on key areas of the Council's control environment. 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; • significant accounting estimates; and • some 'unpredictable' procedures. 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 visit 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.

Financial Statements Risks (as identified in the Audit Plan)	Audit response

Valuation of properties

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.

Our Audit Plan identified some specific areas of risk:

- 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.

The Council's housing stock is valued by applying the 'beacon principle', which involves 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; we identified 70 properties as being potentially misclassified on the valuer's listing.

We tested a sample of capital expenditure additions and verified that assets have been recognised as being brought into use in the correct accounting period. Our review of the Council's controls over monitoring capital spend identified no areas for concern.

We reviewed the valuation methods and assumptions applied by the external valuer and concluded that they were appropriate.

We reviewed the Council's accounting for asset valuations in its draft accounts and were satisfied this was appropriate.

To address the issue arising in the prior year in relation to the Council's housing stock, the Council took two key steps:

- firstly, to ensure that the valuer has complete and up to date information, a complete set of up to date housing data was provided from the Council's housing service to the valuer. In conjunction with this, an exercise was also undertaken to ensure that the data held by the Council's accountancy function was consistent with that held by the Council's Housing Department; and
- secondly, to ensure that the Council's data on its properties is up to date, such as for example the number of rooms, the Council is in the process of undertaking a full survey of all of its properties.

To achieve value for money, the Council used its gas servicing contractor plus additional internal resource to collect up to date information for each property on its behalf; with the information being subsequently reviewed by Council officers. The Council shared its proposed methodology for this exercise with us and we were satisfied that the process would provide us with sufficient evidence for our audit of the financial statements.

The Council's plan is for the survey of approximately two thirds of its properties to be complete by the end of August 2012. The updated information will then be passed to the external valuer to determine the impact upon the housing stock valuation. The Council will then consider what, if any, changes it proposes to make to the housing stock valuation included in the 2011/12 accounts in light of the external valuer's updated valuation.

We will update the Finance, Audit and Performance Committee on our views on this issue at its meeting on 10 September 2012.

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, subject to the satisfactory resolution of a small number of outstanding matters, we expect to be able to issue an unqualified audit opinion. At the time of writing, the key outstanding matters are:

- receipt of rental agreements to support the valuation of two investment properties as well as a response to an outstanding query on the valuation of one property;
- receipt and review of any amendments to the housing stock valuation once this information is available to the Council;
- complete our review of the final post-audit set of financial statements;
- receipt of outstanding bank confirmations from the relevant institutions, which we are actively 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 2011/12 financial statements prior to signing our audit opinion.

Accounts preparation

The financial statements for 2011/12 are the second to be prepared under International Financial Reporting Standards (IFRS). In our report on the audit of the 2010/11 financial statements, you may recall that we reported to you that the Finance Team had performed well in responding to some concerns that we had raised early on in the audit process regarding the Council's plans for implementing IFRS, but that there was scope for the Council to further improve the quality of its draft financial statements presented for audit. Therefore, we are pleased to report that the draft financial statements for 2011/12 presented to us for audit at the end of June 2012 were of an appreciably higher quality than has been the case in recent years, for which the Finance Team should 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 a good standard. Key staff were available during the audit to address any audit queries and the Finance Team responded positively to any audit questions and requests for information.

As one might expect during any audit, a number of disclosure amendments were identified, all of which have been discussed and agreed with management. Greater attention to some disclosures in future years would provide an opportunity to improve the efficiency of the audit process even further.

We would like to thank the Finance Team for their support and assistance during the audit. We will continue to work with you to help further improve and strengthen the accounts preparation and audit process going forward and are always happy to give and receive constructive feedback in order to achieve this.

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 2012 the value of such assets included in the Council's draft financial statements was as follows:

- Council dwellings - £105.4 million
- Other land and buildings - £13.1 million
- Investment properties - £9.1 million

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

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 its 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.

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. As detailed earlier in this report, the Council is in the process of undertaking a full survey of its properties to check information such as the number of rooms, in order to ensure that the Council's base data on its properties is up to date.

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 have sought to test a sample of rental income figures to tenancy agreements as it is these rental values which form the basis of the investment property valuation. As detailed earlier in this report, at the time of writing we are awaiting evidence from the Council for two properties in our chosen sample.

Surplus asset: land at Stoke Road

The Council's draft financial statements disclosed a surplus asset valued at £2.3 million at 31 March 2012. This related to land at Stoke Road in Hinckley which had been leased to a community organisation since 1985 but reverted back to the Council at the end of the lease during 2011/12. The land is not in current operational use by the Council and so has been valued as a surplus asset.

As far as we are aware, the asset has always been owned by the Council, but during the period it was leased to the community organisation has not been recognised in the Council's financial statements. The rent paid to the Council under this lease was of a low, peppercorn value, and the Council considered that whilst the lease was in place in effect it had very little value to the Council, hence it was not included in the financial statements in previous years.

Given that the land at Stoke Road has effectively increased in value in the Council's financial statements from £nil as at 31 March 2011 to £2.3 million at 31 March 2012 we challenged the Council on whether the value of the land at 31 March 2011 was really £nil and if not then whether a prior period adjustment may be required to the 2011/12 financial statements. The Council approached its external valuer on this and he has assessed that an appropriate valuation at 31 March 2011 (while still on lease to the community organisation) would have been £783,000, taking into account its use at that time and its potential for development in the future.

The Council is firmly of the view that the value of the land at 31 March 2011 was appropriately recognised as £nil given the circumstances in place at that time. The Council's external valuer has subsequently assessed that an appropriate valuation at 31 March 2011 (while still on lease to the community organisation) would have been £783,000, taking into account its use at that time and its potential for development in the future. This demonstrates that even when different judgements are used the impact upon the financial statements is not material. As a result we are comfortable that the Council's accounting treatment for the land at Stoke Road has not resulted in a material misstatement of either the 2010/11 or 2011/12 financial statements. However, we will be asking the Council to provide management representations to us on this issue. In addition, we have agreed with the Council an amendment to the disclosure in the 2011/12 financial statements to aid the reader of the accounts in understanding the scale and nature of the valuation of the land at Stoke Road included in the financial statements at 31 March 2011 and 31 March 2012.

Misstatements and audit adjustments

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 2012 that misstatements less than £50,000 would be regarded as trivial and would not be reported to you.

The five misstatements we have identified in the accounts are below £50,000 both individually and in aggregate. We are pleased to report that there are therefore no uncorrected misstatements to report to you. We have provided details of the uncorrected misstatements to management but have not asked management to adjust the financial statements for them given that they are small in both number and value.

There are no adjusted misstatements to report.

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.

Judgements and accounting estimates

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

Housing repairs service

From September 2012 the Council ended the outsourcing of its housing repairs service and reverted to providing the service in-house. This is a complex area for accounting and requires judgement, particularly in determining the revenue or capital nature of works being undertaken.

The amounts recorded in the financial statements for 2011/12 are as follows:

- revenue expenditure on housing repairs charged to the Housing Repairs Account: £2.2 million (2010/11: £2.2 million); and
- capital expenditure on housing repairs: £2.5 million (2010/11: £2.7 million).

Given the change in delivery model during the year, our testing during the audit process has examined the accuracy and accounting for revenue and capital items specifically in the areas of:

- repairs conducted by Wilmott Dixon under the outsourcing arrangement;
- in-house repairs delivered by sub-contractors; and
- in-house repairs delivered by the Council's teams.

As a result of the testing of controls and detailed testing of a sample of transactions, we are satisfied with the material accuracy of the financial statements and the Council's application of judgement in determining the revenue or capital classification of expenditure.

Accounting for Leicestershire Revenues and Benefits Partnership
The Leicestershire Revenues and Benefits Partnership is a joint arrangement between Hinckley and Bosworth Borough Council, Harborough District Council and North West Leicestershire District Council. It is not a separate legal entity; Hinckley and Bosworth Borough Council acts as the accounting body with decisions regarding the running of the Partnership being taken by a joint management committee.

The Council accounts separately for the Partnership on its ledgers, and does not include its results within the Council's financial statements, instead accounting only for its share of the Partnership's assets and liabilities. This is consistent with the Code of Practice on Local Authority Accounting. We have assessed two important judgements that the Council has made in applying this accounting treatment.

Firstly, while the Council maintains separate ledgers for the Partnership, the Partnership does not have its own bank account. The lack of a separate bank account is also evident within the ledgers, with the balancing figure in the ledgers essentially assumed to be the Partnership's bank balance, which is excluded from the Council's financial statements. This figure as at 31 March 2012 was £119,000. We have concluded that the Council's assessment of this balance is reasonable, and that the figure itself is in line with expectations given the scale of the Partnership's operations. Whilst we recognise that there may be good reasons for not maintaining separate physical bank accounts, we have recommended to management that cash balances be separately identified in the ledgers, which management have accepted.

Secondly, the Partnership recorded an aggregate under-spend for the three partner councils in 2011/12 of £189,779. The Council has not recognised a share of this in its financial statements. The Council is firmly of the view that the decision was taken jointly in the Partnership management committee that the Partnership would retain these monies to reinvest and that this is the view of all three partner councils. The alternative accounting treatment would be for the Council to recognise its share (a third) of this balance as a prepayment and reduce expenditure in 2011/12 by the same amount. Given the evidence in decision making provided by the Council and the immaterial nature of the amount concerned, we have accepted the Council's accounting treatment.

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 2012 for Hinckley and Bosworth Borough Council was £20.8 million. This represents an increase from the prior year of £5.3 million.

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

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
A draft of the representation letter that we will be requesting the Deputy Chief Executive (Corporate Direction) to sign on behalf of the Council 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.

Other services provided: Leicestershire Revenues and Benefits Partnership

In July 2012 the Council asked us to perform specified tests on the accounting records it keeps for the Leicestershire Revenues and Benefits Partnership and for the results of this work to be reported to the Partnership's management committee. The fee for this work was £2,500 (+ VAT). We are satisfied that this does not impair our independence as auditors of the Council's financial statements because of a number of factors, including that the transactions are not recorded in the Council's financial statements and reviewing the financial information concerned is not inconsistent with our role as your auditors.

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 no internal control issues which we feel warrant bringing to your attention. The audit work we have conducted has identified a small number of 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 draft 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 2011/12 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 also 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 draft Audit Plan in April 2012. 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.

Each year, the Council completes a survey for the Audit Commission concerning frauds it has encountered and identified during the year. The completed survey is provided to us as auditors for us to consider if any part of the completed survey is inconsistent with our knowledge. In addition, we are required to report to the Audit Commission any individual frauds greater than £10,000. There was one such case to report: it was a case of benefits fraud, with a total value of £10,132, but where the Council recovered the amount through an administrative penalty.

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 2011/12 our conclusion will once again be based on the following 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.

As in 2010/11, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We reported our planned audit approach to you in April 2012 as part of our 2011/12 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 to those risks.

Arrangements for securing financial resilience

During 2011/12 the Council completed the process of updating its Medium Term Financial Strategy (MTFS), and published its MTFS for the period 2011/12 to 2014/15. The MTFS has been comprehensively refreshed and considers the Council's response to a number of developments and funding changes, including council tax income, the impact of self-financing for the housing revenue account and the effect of forecast changes in expenditure, such as pay and price increases.

The largest single impact upon the Council's finances comes from changes in central government funding. The MTFS considers the impact on the Council's finances in a number of scenarios, including the formula grant staying at existing levels, reducing by 5% and reducing by 10%. The worst case results in Council balances falling below what it has previously agreed as acceptable levels by the end of the MTFS, and the Council's Chief Officers have been required to identify additional savings that could be implemented should this 'worst case' scenario arise.

The Council has a proven track record in recent years of reliably forecasting the scale of the financial challenges, identifying strategies to address the challenges, including identifying significant savings plans, and implementing them successfully. The Council's new MTFS seeks to build upon its track record of developing and delivering a financial plan to secure the Council's continuing financial resilience.

Arrangements for challenging economy, efficiency and effectiveness

In our Audit Plan, we identified a specific risk regarding the change in delivery of the housing repairs service. The business case for the move to an internal service forecasted savings that could be secured. The change in service delivery has enabled the Council to eliminate the private sector profit from the contract, as well as reduce duplication such as inspections by two parties, and save on contract management costs. It is clear that economy and efficiency has been achieved to date. The Council will need to ensure it continues to manage the service tightly as at present, to ensure this continues to be the case. The Council also ensured effectiveness in its service by transferring staff and adopting a principle that service users would see no change in service delivery. Satisfaction surveys and post-job inspections have been carried out to check on services being delivered.

Considering the Council more widely, in 2011/12 the original forecast was for a net cost of services of £10.4 million, but it delivered an out-turn of £8.8 million, representing a significant underspend of £1.6 million. This improved position was principally a result of increased funding from the new homes bonus, local income generation, and savings from salary costs. The Council also delivered its savings plans identified through the previous MTFS. The Council continues to consult with service users on key priorities annually, as well as issuing other consultations during the year. The Council's Scrutiny Commission receives value for money reports from service areas assessing their delivery in the year and future plans.

The key remaining part of our work for this criterion is to identify and evaluate available evidence of the Council maintaining the effectiveness of its services in light of the funding challenges it has faced. That having been said, we have not identified any evidence to date that would suggest that this is not the case.

Conclusion

We expect to complete our assessment against the two value for money criteria by 7 September 2012. We will update the Finance, Audit and Performance Committee on our conclusions at its meeting on 10 September 2012. Based upon the work that we have completed to date we 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 2011/12 and presented it to the Finance, Audit and Performance Committee (formerly the Finance and Audit Services Select Committee) in April 2012. There have been no significant changes to our Audit Plan since this time.

Fees update for 2011/12

We reported to you our fee proposals as part of the Audit Plan for 2011/12 in April 2012. Our actual fees are expected to be in line with our original proposals as follows.

	2011/12 Expected outturn (£)	2011/12 Fee proposal (£)
Audit fee, including financial statements audit, Use of Resources/Value for Money conclusion, and Whole of Government Accounts.	108,300	108,300
TOTAL (excluding VAT)	**108,300**	**108,300**

We have not yet completed our work on the Whole of Government Accounts return. This will be completed in line with the accounts deadline of 30 September 2012.

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

In July 2012 the Council asked us to perform specified tests on the accounting records it keeps for the Leicestershire Revenues and Benefits Partnership and for the results of this work to be reported to the Partnership's management committee. The fee for this work was £2,500 (+VAT).