
Government and Public Sector

***Hinckley and
Bosworth Borough
Council***

Annual Audit Letter

November 2011

2010/11 Audit

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30 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to the Finance, Audit and Performance Committee at its meeting on 12 December 2011.

Yours faithfully

PricewaterhouseCoopers LLP

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

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

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Hinckley and Bosworth Borough Council, in a format that is accessible for Members and other interested stakeholders.

We have already reported the detailed findings from our audit work to ‘those charged with governance’, which in the case of the Council has previously been agreed as being the Finance, Audit and Performance Committee (formerly the Finance and Audit Services Select Committee), in the following reports:

- Audit Plan 2010/11 – April 2011; and
- report on the results of our audit of the 2010/11 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260) – September 2011.

Any work undertaken since the September 2011 Finance, Audit and Performance Committee meeting is reported in this Audit Letter.

Scope of work

Our audit work is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources;
- considering any questions or objections raised by local electors to the financial statements; and
- undertaking any other work specified by the Audit Commission.





Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we discussed and agreed with the former Finance and Audit Select Services Committee at its meeting on 18 April 2011.





We have set out in the rest of this report what we consider to be the most significant matters arising from our audit. A summary of the key recommendations that we have made can be found in the Appendix to this letter.

Audit Scorecard

The following scorecard summarises our views across the main areas of our audit using the following key:

Key**Red** – significant improvements required**Amber** – some improvements required**Green** – no or some minor improvements required

Audit Area		Comments
Financial statements	 	<p>In our audit plan we highlighted the risk to delivery of the accounts brought about by the challenge of transition to International Financial Reporting Standards (IFRS) within the required deadlines, particularly given the other competing priorities for the finance team. We worked with the Finance Team to undertake some early work on the IFRS transition and to provide support to them in determining the treatment of some complex and potentially material areas. We are pleased to report that the Council met the required deadlines and the IFRS restated balance sheets and comprehensive income and expenditure statement were of a good standard.</p> <p>The Council prepared its accounts on a timely basis and a first draft of the accounts was available at the start of the audit. Working papers were available for audit on time and were of a good standard. Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some adjustments to the accounts were requested and agreed.</p> <p>A number of disclosure amendments were also identified which were amended appropriately. The volume of amendments required was significant and consistent with prior years; however, this is considered a relative improvement given the additional work required to account under (IFRS) for the first time in 2010/11. Further improvement in the quality of disclosures within the first draft of the accounts could help improve the efficiency of our audit in future.</p> <p>The finance team responded positively to our audit questions and requests for information. The Finance Team worked hard to meet the timescales and were helpful in resolving our queries.</p> <p>We issued an unqualified audit opinion on 30 September 2011.</p>
Significant audit and accounting issues		<p>Our audit identified no significant audit and accounting issues. A small number of issues were identified during our work, which are explained later in this Audit Letter.</p> <p>The Council adjusted its accounts for all identified misstatements. The net impact of the adjustments made to the accounts as a result of the audit was to decrease the balance of the Council's General Fund by £49,000, and the Housing Revenue Account by £32,000. Net assets were also reduced by £48,000.</p>
Whole of Government Accounts		<p>Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the financial statements for the year ended 31 March 2011.</p>

<p>Financial standing/Going concern</p>		<p>We concluded that in overall terms the Council had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.</p>
<p>Internal Controls</p>	 	<p>We reviewed the effectiveness of internal controls over key financial processes. One issue was identified in relation to the reconciliation of the Council dwelling listing maintained by the external valuer back to the Council’s records to ensure the accuracy and completeness of the underlying data used in valuing the Council’s housing stock.</p> <p>We reviewed the Annual Governance Statement to consider whether it complied with relevant guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.</p>
<p>Use of Resources (Value for Money) conclusion</p>		<p>Our work was focussed so that we could give a conclusion based on two criteria:</p> <ul style="list-style-type: none"> • that the Council had proper arrangements for securing financial resilience: and • that it had proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>At the date of our use of resources conclusion an update to the Medium Term Financial Strategy (MTFS) had yet to be produced. This reflected a conscious decision to delay the formal update of the MTFS to allow the Council sufficient time to respond to further changes in its funding. Further information is provided on pages 12-13.</p> <p>We concluded that the assumptions used in financial planning were reasonable and comparable with those made by other similar local authorities and the Council had maintained a robust process of financial planning in the preparation of, and consultation on, various working documents prior to preparation of a refreshed and updated MTFS.</p> <p>We obtained sufficient evidence that the Council had put proper arrangements in place for challenging how it secures economy, efficiency and effectiveness in its use of resources.</p> <p>In overall terms, based upon the work that we performed, we concluded positively on the two stated criteria. We issued an unqualified conclusion on the Council’s use of resources on 30 September 2011.</p>

Grant certification

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So far we have certified five claims and returns relating to the 2010/11 financial year. **Three claims were certified without requiring amendment and/or a qualification letter. Two claims were amended and these same claims also required qualification letters to set out issues arising following certification work undertaken.** The most significant issue arising from our grants' certification work relates to the Housing Revenue Account Base Data Subsidy Return which was one of the two claims referred to above and was certified with a qualification letter and significant amendments. The Council is responding positively to this and further information on this and the Council's subsequent response is provided on page 14.

In the 2009/10 Annual Audit Letter we reported that the Department for Work and Pensions (DWP) intended to recover up to £118,000 from the Council following the certification of the 2008/09 Housing Benefit and Council Tax Benefit claim qualified in November 2009. As a result of further representations made by the Council, **the DWP confirmed in March 2011 that the Secretary of State had noted the Council's comments and, under the circumstances, had '...decided to exercise his powers of estimation.'** **As a result the DWP confirmed that it would recover a sum of £1,532 which has now resolved the matter.**

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Audit findings

Accounts

We audited the Council's Statement of Accounts in line with approved Auditing Standards during July, August and September 2011. We reported the detailed findings from our audit of the financial statements to the Council's Finance, Audit and Performance Committee at its meeting on 12 September 2011 and subsequently issued an **unqualified audit opinion** on 30 September 2011.

Accounts preparation

In our audit plan we highlighted the risk to delivery of the accounts brought about by the challenge of transition to International Financial Reporting Standards (IFRS) within the required deadlines, particularly given the other competing priorities for the Finance Team. We worked with the Finance Team to undertake some early work on the IFRS transition and to provide support to them in determining the treatment of some complex and potentially material areas. We are pleased to report that the Council **met the required deadlines** and the IFRS restated balance sheets and comprehensive income and expenditure statement were of a good standard.

The Council **prepared its accounts on a timely basis** and a first draft of the accounts was available at the start of the audit. **Working papers were available for audit on time and were of a good standard.** Our audit identified **no significant issues** with respect to the quality of the draft accounts presented for audit, though some adjustments to the accounts were requested and agreed.

A number of disclosure amendments were also identified which were amended appropriately. The volume of amendments required was consistent with prior years; however, this is considered a relative improvement in the context of the additional work required to prepare the accounts under IFRS for the first time in 2010/11. In future, improvement in the quality of disclosures within the first draft of the accounts could help improve the efficiency of our audit.

The Finance Team responded positively to our audit questions and requests for information. The Finance Team worked hard to meet the timescales and were helpful in resolving our queries. We would like to thank the Finance Team for their support and assistance during the audit.

Accounting issues

Valuation of non-current assets

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

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

The Council engaged the services of Sturgis, Snow & Astill LLP, chartered surveyors and valuers, to assess the value of the properties on management's behalf. We reviewed the assumptions applied by the valuer and concluded that they were reasonable. We also sought to validate the accuracy of the underlying data upon which the valuation was 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. Guidance issued by the Department for Communities and Local Government (DCLG) recommends the use of regional adjustment factors to reduce market value down to tenanted market value. This factor has decreased from 50% to 34% between 2009/10 and 2010/11 resulting in a reduction of approximately £46m in the carrying value of the housing properties in the Council's financial statements.

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

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

Other land and buildings

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

Investment Properties

The main component of the Council's investment property portfolio consists of industrial estates. Such assets are valued based on the estimated future rental income they will generate. We tested a sample of rental income figures to tenancy agreements and identified one misstatement in the rental values provided to the valuer, which had an impact on the valuation of £52,000. This was corrected in the accounts and there was no impact on the General Fund balance as a result of correcting this misstatement.

Unadjusted and adjusted misstatements

The Council **adjusted its accounts for all identified misstatements**, therefore, there were no identified misstatements that remained unadjusted within the financial statements. **The net impact of the adjustments made to the accounts as a result of the audit was to decrease the balance the General Fund by £49,000, and the Housing Revenue Account by £32,000. Net assets were also reduced by £48,000.**

Whole of Government Accounts

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

Financial standing/Going concern

Financial standing/Going concern

The Council is responsible for ensuring that it has arrangements in place to secure its financial standing. One of our key responsibilities as auditors is to fully consider the financial standing of the Council.

We concluded that the Council had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.

Current year position

The financial outturn for the three months to the end of June 2011 was reported to the Finance, Audit and Performance Committee on 12 September 2011. This highlighted that:

- there was **an estimated year-end underspend against the agreed General Fund budget of £525,860;**
- this was primarily due to salary savings, increased recovery of Housing and Council Tax Benefit overpayments and income from bin rental;

- there was an estimated year-end underspend against the agreed Housing Revenue Account budget of £46,758; and
- no significant variation was anticipated on the year-end capital outturn.

We will continue to monitor the Council's financial resilience and performance against budget and against its savings plans as a routine part of our 2011/12 audit procedures.

Internal Controls

Accounting systems and systems of internal control

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

During the audit process we identified one issue in relation to **the reconciliation of the Council dwelling listing maintained by the external valuer back to the Council's records to ensure the accuracy and completeness of the underlying data used in valuing the Council's housing stock**. This was also referred to earlier in this Audit Letter under the heading 'Accounting issues'. Our recommendation to management on this issue has been summarised in the Appendix to this Audit Letter.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS accompanies the Statement of Accounts.

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

Use of Resources

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

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

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

Summary of findings

All local government organisations are faced with increased challenges in their medium term financial outlook. Hinckley and Bosworth Borough Council had planned for a scenario of reduced formula grants and budgets ahead of other similar organisations, and has delivered on savings plans in recent years to help secure financial resilience. Announcements by the Government over the past year have signalled reductions in funding available to local government bodies that are greater than the worst case forecast in the Council's 2010-13 Medium Term Financial Strategy (MTFS). Throughout 2011, the Council has worked to assess the impact of these changes; however, at the

time we issued our audit opinion in September 2011 the Council had not formally updated its MTFS following these revised funding announcements, although many others Councils have now done so.

The Council made a conscious decision to delay the finalisation of the MTFS until the position of future Revenue Support Grant (RSG) funding for 2013-14 and 2014-15 becomes clear at the next Settlement announcement. The decision to delay is also because of the current uncertainty over the financial impact of the Resources Review on Localisation of Council Tax Benefit, Business Rates and Community Budgets.

We are satisfied that in recent months, updated financial planning documents have been presented to a number of forums within the Council. Managers, staff and Members have been regularly briefed on the short and medium term position of the Council's finances, and the Council has performed work on its financial budgets and strategy to secure financial resilience whilst a fully revised MTFS is prepared.

Assumptions applied to forecasts can often have a significant impact on balancing budgets. The Council has a history of delivering good financial management and being ahead of many others in anticipating and responding to change. However, the current economic climate is difficult and with so many assumptions being applied there is an increased risk that one of the influencing factors may vary significantly from the assumptions applied. We reviewed the key assumptions in financial planning documents against either benchmark figures or our own expectations in order to consider their reasonableness. In overall terms we were able to conclude that the assumptions used were reasonable in comparison to others.

We also concluded that the Council had made proper arrangements for securing financial resilience. However, there was a need for the Council to formally update its Medium Term Financial Strategy document through the Autumn/Winter of 2011.

In recent years the Council has demonstrated good performance in ensuring it achieves economy and efficiency in its use of resources. The Council maintained this performance in 2010/11, including benchmarking itself against others and performing detailed service reviews of its key operations. The Council also effectively challenged how it delivers effective services, including consulting with residents and user groups, and responding to these in determining service priorities and then demonstrating good performance in these areas.

Conclusion

Although an update to the MTFS had yet to be produced at the time we issued our conclusion on the Council's use of resources, the Council had maintained **a robust process of financial planning in the preparation of, and consultation on, various working documents prior to preparation of a refreshed and updated Medium Term Financial Strategy.** Our overall conclusion was that, in general, the assumptions used in financial planning were reasonable and comparable with those made by other similar local authorities. However, **there remained a need for the Council to formally update its Strategy for consultation and agree it with members.**

We obtained sufficient evidence that the Council had put **proper arrangements in place for challenging how it secures economy, efficiency and effectiveness** in its use of resources.

In overall terms, based upon the work that we performed, we concluded positively on the two stated criteria. We issued an unqualified conclusion on the Council's use of resources on 30 September 2011.

Grant claims and returns certification

So far we have certified five claims and returns relating to the 2010/11 financial year. **Three claims were certified without requiring amendment and/or a qualification letter. Two claims were amended and these same claims also required qualification letters to set out issues arising following certification work undertaken.** One further claim remains to be certified for which the deadline is 31 December 2011.

The most significant issue arising from our grants' certification work relates to the Housing Revenue Account Base Data Subsidy Return which was one of the two claims referred to above certified with a qualification letter and significant amendments. The absence of a comprehensive audit

trail for a number of claim entries and the inability to reconcile fully the base data to the Council's housing system or the valuer's listing of Council dwellings may impact on the calculation of the self-financing one-off financial settlement that is due to come into effect from April 2012. The DCLG wrote to the Council on 24 October 2011, following receipt of our qualification letter, and work is currently underway within the Council to reconcile relevant records and obtain an updated valuation listing.

In response to the letter from DCLG, the Council has started work on the points raised and is engaging external surveyors/valuers to provide more accurate data on the Council's housing stock to satisfy the base data audit requirements. The Council intends to provide details of the planned scope of this work to us and to the Council's valuer prior to the valuation being undertaken. The Council is confident that having obtained this valuation it will be able to satisfy DCLG that no material adjustments will be required to the self financing settlement figure.

In the 2009/10 Annual Audit Letter we reported that the Department for Work and Pensions (DWP) intended to recover up to £118,000 from the Council following the certification of the 2008/09 Housing Benefit and Council Tax Benefit claim qualified in November 2009. **As a result of further representations made by the Council, the DWP confirmed in March 2011 that the Secretary of State had noted the Council's comments and, under the circumstances, had '...decided to exercise his powers of estimation..' As a result the DWP confirmed that it would recover a sum of £1,532 which has now resolved the matter.**

Electors' questions or objections

We received no questions or objections from local electors relating to the 2010/11 accounts.

Appendix - Summary of Recommendations

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

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