

# *Hinckley and Bosworth Borough Council*

*Annual Audit Letter*

2012/13

Government and  
Public Sector

October 2013

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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.

An audit 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.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2012/13 audit work for members of the Finance, Audit and Performance Committee.

We have already reported the detailed findings from our audit work to the Council's Finance, Audit and Performance Committee in the following reports:

- Audit opinion for the 2012/13 financial statements incorporating our opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Report to those charged with governance (ISA (UK&I) 260); and
- Annual Certification Report to those charged with governance for claims audited up until 31 December 2012.

The matters reported here are the most significant for the Council.

## Scope of Work

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.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	<p>We completed an audit of the Council's statutory accounts for the year ending 31 March 2013.</p> <p>We issued an unqualified audit opinion on the statutory accounts on 25 September 2013.</p>
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	<p>Hinckley and Bosworth Borough Council's income, expenditure, assets or liabilities did not exceed £300m.</p> <p>Therefore, in line with the Audit Commission's guidance, we issued a short form Assurance Statement, which concluded that the pension liability and property, plant and equipment disclosures were consistent between the audited statutory accounts and the Whole of Government Accounts Consolidation Pack.</p>
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	<p>The Audit Commission guidance includes two criteria relating to the value for money conclusion:</p> <ul style="list-style-type: none"> <li>• the organisation has proper arrangements in place for securing financial resilience; and</li> <li>• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul> <p>We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.</p> <p>We issued an unqualified value for money conclusion.</p>

Audit Responsibility	Results
<p>Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</p>	<p>Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.</p> <p>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.</p> <p>We found no areas of concern to report in this context.</p>
<p>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</p>	<p>No matters arose during our audit that would require us to produce a public interest report.</p>
<p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</p>	<p>No other actions were required to be taken in relation to our responsibilities under the Audit Commission Act.</p>

Audit Responsibility	Results
<p>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</p>	<p>We issued a completion certificate in line with the unqualified audit opinion on 25 September 2013.</p>

# ***Audit Findings***

## ***Accounts***

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 25 September 2013.

We identified the following matters:

## ***Disclosure Matters***

As one might expect during any audit, some disclosure amendments were identified which were discussed and agreed with management.

The most significant of these was the change in accounting policy for the presentation of the collection fund debtors and creditors. Previously the balances were presented in the accounts on a net basis. To more effectively represent the nature of these transactions to readers of the accounts, these balances were presented on a gross basis in 2012/13. This change was purely presentational and had no impact on the Council's Comprehensive Income and Expenditure Statement and did not affect the net surplus or deficit for the year.

## ***Accounting for grant monies***

A key accounting judgement in the 2012/13 financial statements related to the Council's accounting for Regional Growth Funding and Fuel Poverty and Green Deal Funding.

## ***Regional Growth Funding***

The Council was awarded £19.4 million from the Government's Regional Growth Fund (RGF) to support the expansion of the A5 and infrastructure works around the

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Motor Industry Research Association (MIRA) Enterprise Zone, which is the automotive research and testing facility to the West of Hinckley. We identified a disclosure risk relating to how the Council disclosed these transactions in its accounts. In particular, we considered whether the Council is acting as principal (the Council holds primary responsibility) or an agent (the Council is acting as an intermediary) as recipient of this funding.

The Council completed its assessment of the arrangement and determined that it was acting as a principal in respect of the recognition of funds which cover expenditure incurred directly by the Council and as an agent for the expenditure incurred by MIRA and the monies transferred to MIRA from the grant funds.

We formed our own independent assessment of the Council's view of its role and were satisfied with the Council's accounting on this basis. We agreed with the Council the need to sufficiently disclose the basis for the chosen accounting treatment in the 2012/13 financial statements, providing the reader with additional information that would have been presented had all the grant monies been presented on a gross basis.

## ***Fuel Poverty and Green Deal Funding***

The Council also acts as the Accountable body for Fuel Poverty and Green Deal Funding budgets totalling £3,092,600. These funds are used by neighbouring local authorities and the Council itself.

The Council assessed that was acting as a principal in respect of the expenditure incurred directly by the Council and as an agent for the monies due to be passed on to other local authorities based on expenditure incurred by the other local authorities.

We formed an independent view on the Council's assessment and treatment of these monies and were satisfied with the Council's accounting treatment.

### 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 board.

The Council accounts separately for the Partnership and does not include its results within the Council's financial statements. The Council's financial statements account only for its share of the Partnership's assets and liabilities. This is consistent with the Code of Practice on Local Authority Accounting.

We assessed two important judgements that the Council made in applying this accounting treatment:

- Firstly, the absence of a separate bank account for the Partnership (partnership monies are recorded separately on the ledger), and the assumption that the balancing figure in the ledger is the Partnership's bank balance, which is excluded from the Council's financial statements. This figure as at 31 March 2013 was cash balance of £104,235.

- Secondly, confirmation from the Council that the aggregate over-spend for the three partner councils in 2012/13 of £68,133 would not be disaggregated and recognised in each partner authority's financial statements.

Having considered these judgements and the immaterial nature of the amounts concerned, we accepted the Council's accounting treatment.

These matters are consistent with the Council's accounting treatment in 2011/12.

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Council had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in your use of the Council's resources.

In line with Audit Commission requirements, 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.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment. We considered:

## Arrangements for securing financial resilience

During 2012/13 the Council updated its Medium Term Financial Strategy (MTFS) for the period 2012/13 to 2015/16 which was approved by Council in July 2013. The MTFS has been comprehensively refreshed and considers the Council's response to a number of developments and funding changes, including both internal and external funding pressures.

The largest impact upon the Council's finances comes from central government's plans to reduce local government funding by up to 28% by 2015. The MTFS considers the impact on the Council's finances as a result of these changes and incorporates a best case, forecast and worst case scenario to factor in a range of assumptions including the effect on council tax levels, local council tax scheme caps, and business rate levels.

As in previous years and in line with the current economic climate, the worst case scenario results in Council balances falling below what it has agreed as an acceptable level requiring the Council's Chief Officers to identify additional savings that could be implemented should this 'worst case' scenario arise. The Council has put in place various measures to ensure planned savings are achieved.

An HRA Investment Plan 2013-2018 was also prepared in conjunction with the MTFS. The plan details investment proposals for new and existing housing stock updated to reflect the move to self-financing which came into effect in April 2012.

The Council has a proven track record in recent years of reliably forecasting the scale of 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.

At the same time, the Council continues to improve its arrangements to engage its staff in understanding the broader financial challenges faced in the medium term through recent workshops with finance and service managers.

## Arrangements for challenging economy, efficiency and effectiveness

The Council continues to consult with service users on key priorities annually, as well as issuing other consultations during the year and ensures that Corporate Plan priorities continue to remain in line. Service Improvement Plans (SIPs) and the Performance Management Framework are used by service areas in assessing their delivery in the year and their future plans. Reports are issued to the Scrutiny Committee and the Finance, Audit and Performance Committee for review.

Variances to budget are investigated by the Council on a monthly basis as a means of identifying deviations from plan that could be a cause for concern. By carrying out this exercise monthly it allows the Council to identify and put right, on a timely basis, any service issues driving unfavourable variances. At the end of 2012, a significant under-spend was identified on the Housing Repairs service as part of budget monitoring. It was identified that this was primarily due to a backlog of repairs jobs in the Housing system due to some procedure failings identified within the service. In response to this, an Action Plan was swiftly put in place. By the end of the year, the backlog had been mostly cleared and the Council had received assurances that processes within the service were working more effectively.

## Value for Money profile tools

The Audit Commission provide a host of value for money profile tools which include comparisons of the Council to its statistical nearest neighbours on a number of attributes

relating to economy, efficiency and effectiveness. The profile tools have been considered in forming our view on the Council's economy, efficiency and effectiveness. The profile tools indicate that the Council is a low spending authority which is consistent with prior period results.

We issued an unqualified conclusion on the Council's use of resources based on the two criteria referred to above.

### *Annual Governance Statement*

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

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

### *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. As the Council's income, expenditure, assets and liabilities were all below £300m, we issued a short form Assurance Statement on 25 September 2013 to the National Audit Office. No areas of concern were identified.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2011/12 to the Finance, Performance and Audit Committee on 4 March 2013. We certified four claims worth £47 million. In two cases a qualification letter was required to set out the issues arising from the certification of the claim. The first was for the Council's Housing Revenue Account Subsidy Claim whereby amendments to the claim were required to correct opening and closing Capital Financing Requirement (CFR) balances included in the claim form for 2011/12. The claim was amended for these issues and there was no impact on the Authority's entitlement to subsidy.

The second was for the Council's Housing and Council Tax Benefits Scheme where our testing identified a number of errors in relation to the Authority's compliance with Housing and Council Tax Benefit regulations. For some of the errors it was possible to quantify them and make appropriate amendments to the claim form. Other matters were reported in our qualification letter to the Department for Work and Pensions. These matters had no material impact on the level of subsidy claimed by the Council.

We will issue our Annual Certification Report for 2012/13 in March 2014.

### *Summary of Recommendations*

No recommendations were reported to the Finance, Audit and Performance Committee.



## Final Fees

### Final Fees for 2012/13

We reported our fee proposals in our 2012/13 Audit Plan.

Our actual audit fees were in line with our proposals at £64,540.

Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to the Finance, Audit and Performance Committee in March 2014 within our 2012/13 Annual Certification Report.

	2012/13 outturn	2012/13 fee proposal	2011/12 final outturn
<b>Audit work performed under the Code of Audit Practice</b> (Includes our work on the Statement of Accounts, Use of Resources and the Whole of Government Accounts).	64,980	64,980	108,300
<b>Certification of Claims and Returns</b>	To be confirmed	23,500	47,810
<b>Non Audit Work</b>	2,300	2,300	2,500

### Non Audit work

In April 2013 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 £2,300 (+VAT).

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We assessed the threats and safeguards around our independence as the Council's external auditors and agreed with the Council how the risks could be mitigated.

#### Potential threat to independence

#### Safeguards in place

A self-review threat could arise if we were planning to rely on the results of the non-audit work for the external audit.

The scope of the non-audit engagement was to report factually on the findings from testing performed on an agreed number of transactions incurred by the Partnership. This was financial information that was not reviewed as part of the external audit.

A potential familiarity (or trust) threat could arise due to the engagement personnel being the same for the audit and non-audit work.

We used different engagement leaders for the non-audit and external audit work.



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.

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