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Hinckley and Bosworth Borough Council

Report to those charged with governance

Report to the Finance, Audit and Performance Committee on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260)*

Government and Public Sector

7 September 2015

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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.

Contents

An audit of the Statement of Accounts 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.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in February 2015; we have reviewed the plan and concluded that it remains appropriate. We have made one addition to our plan which is discussed in the *Audit Approach* section below.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts by 30 September 2015.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- resolution of outstanding enquiries relating to the valuation of PPE, these queries are with the Council's valuers;
- receipt of one investment confirmation from Skipton Building Society;
- review of the revised Statement of Accounts;
- approval of the Statement of Accounts and letters of representation after approval by the Council; and
- completion procedures including subsequent events review.

We look forward to discussing our report with you on the 7 September 2015. Attending the meeting from PwC will be Sophia Mouyis and Alison Breadon.

Audit approach

Our audit approach was set out in our audit plan which we presented to you in February 2015. Since then we have included an additional significant risk in our audit plan relating to the valuation of property, plant and equipment. This additional audit risk has been included consistently across all of our local government sector clients. We included this additional risk because this is the largest balance on your balance sheet which makes the risk of a material error more likely and because it is an estimated balance based on judgement, the review of key assumptions used in the valuation requires increased scrutiny and challenge.

We have summarised below the significant risks we identified in our audit plan as well as the additional significant risk on property, plant and equipment. We have summarised the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed

Risk	Categorisation	Audit approach	Results of work performed
Management override of controls 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. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	We considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We performed procedures to: -review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported year-end position; - review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable; - evaluate the business rationale underlying significant transactions outside the normal course of business; and We performed unpredictable procedures targeted on fraud risks.	No instances of management override of controls were identified as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are equally likely to present themselves through manipulation of expenditure in the public sector.	Significant	We performed the following procedures: • we understood, evaluated and tested key income and expenditure controls; • we evaluated the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting; • we tested the appropriateness of journal entries and other adjustments; • we reviewed accounting estimates for income and expenditure, for example, provisions; • we performed cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period; and • we performed unrecorded liabilities testing.	No instances of fraud were noted as a result of these procedures.

Risk	Categorisation	Audit approach	Results of work performed
Property, Plant and Equipment Valuation Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of external experts. Specific areas of risk for 2014/15 include: ➢ asset valuation input data may be inaccurate or incomplete; and ➢ valuation assumptions used may not be appropriate.	Significant	We reviewed the basis of asset revaluations undertaken and in doing so considered: • the judgements, assumptions and data used; • the reasonableness of estimation techniques applied; and • the expertise of your valuation experts. We reviewed the accounting entries made to recognise the valuation changes in the accounts. For those assets valued at depreciated historical cost we considered whether there were any indicators for impairment.	No misstatements were noted as a result of these procedures at the time of writing. However, further enquiries are required. Details of which are discussed later in the *judgements and accounting estimates* section of this report.

Intelligent scoping

In our audit plan presented to you in February 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality was updated on receipt of the draft accounts but this did not impact on our audit approach. Our revised materiality levels were as follows:

	£
Overall materiality	1,014,500
Clearly trivial reporting de minimis	25,000

Overall materiality was set at 2% of gross expenditure less exceptional items for the year ended 31 March 2015.

Auditing standards require that we report to you all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Finance, Audit and Performance Committee at its meeting in February 2015.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the outstanding matters set out on page 1.

Once these matters are satisfactorily completed, we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Audit scorecard

The scorecard below summarises our view of your accounts and audit performance.

Key

Red – significant improvements required

Amber – some improvements required

Green – no or some minor improvements required

	2013/ 2014	2014/ 2015	Comments
Quality of accounts and working papers	Green	Green	The Authority prepared its accounts on a timely basis and a first draft of the accounts was available at the start of the audit. 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.

Readiness for start of audit and availability and responsiveness of staff			We had ongoing conversations with the Finance Team on technical issues throughout the year to ensure no surprises during the final audit. 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			Some audit adjustments arose during our work, however management agreed to correct for these and the majority of adjustments were of a presentational nature. These are explained in detail later in this report.
Deficiencies in internal control systems			We have not identified any significant issues with respect to the effectiveness of the Authority's internal controls this year.
Value for Money conclusion			Our work is still ongoing. We have identified no improvements required at this stage.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements and significant audit adjustments we found during the audit, other than those which are trivial. We are pleased to report that management have agreed to correct all misstatements and audit adjustments identified to date.

The misstatements and audit adjustments identified above our de minimis reporting threshold which will be corrected by management related to the following:

1) Presentational errors in the comprehensive income and expenditure statement and corresponding notes with no impact on net expenditure or reserves;

2) An amendment to the estimates made for the land charges provision at the end of March 2015. This amendment was requested because further information came to light since the year end which allows for a more reliable estimate of this provision as at 31 March 2015. This is discussed further in the *Judgements and accounting estimates* section below;

3) An accounting amendment to more accurately reflect the substance of the Compulsory Purchase Order (CPO) carried out in relation to the Crescent development which was concluded to be an agency as opposed to a principal transaction but the change had a nil net impact; and

4) A further accounting amendment to more accurately reflect the transactions relating to arrangements entered into with the Hinckley Squash and Rackets Club. This change resulted in a decrease in net expenditure and corresponding increase in creditors by £897,000.

5) An adjustment to remove the Hinckley Bus Station toilet from the Authority's assets as this has been demolished and the land transferred to Tin Hat. The adjustment resulted in a fall in asset value of £111,000 which was subsequently reversed out and therefore had no General Fund impact.

6) The Gross Internal Area used by the Authority's valuers was incorrect for two buildings. This resulted in a net decrease in asset valuation of £127,000. The impact on the comprehensive income and expenditure statement was a reversal of an impairment expense of £168,000. This expense has been reversed out and therefore has no General Fund impact.

7) An amendment was required to correctly account for the business rate appeals expense which the Authority incurred during 2014/15. This resulted in a reduction in the Authority's retained business rates income and also reduced the levy payable. The net impact on the comprehensive income and expenditure statement was an expense of £155,000.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgements and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Provisions

Business Rates Appeals Provision

The Authority has made a provision for the cost of refunding ratepayers who successfully appeal against the rateable value of their property. A provision of £336,000 relating to 101 appeals was estimated as at 31 March 2015 and included in the draft accounts.

To arrive at this estimate, the Authority utilised software called Analyse LOCAL (developed by Inform CPI Ltd) which has been used by a large number of local authorities to assist in the estimation of the likely outcome for each outstanding appeal as at the 31 March 2015. The software uses up to date outstanding appeals information from the Valuation Office Agency and based on the type of appeal, geographical location and other relevant factors produces an outcome analysis for each appeal.

Their analysis includes whether an appeal is likely to be withdrawn, when an appeal is likely to be settled and an estimate for the potential reduction in rateable value along with the corresponding liability.

Due to legislative changes businesses had until 31 March 2015 to submit claims for any rate refunds backdated to April 2010. Refunds for any appeals submitted after 31 March 2015 can only be back dated for a maximum of 2 years if successful.

Three key judgements were exercised by the Authority in determining its provision:

1) appeals that have been assessed by Analyse LOCAL as *potential withdrawals* have not been provided for (consistent with last year) – this amounts to £260,072;

2) appeals that have been assessed by Analyse LOCAL as *likely to be settled after the 1 April 2016* have been considered as likely dismissals and have not been provided for (consistent with last year) – this amounts to £797,697 (excludes likely withdrawals included above); and

3) a large proportion of appeals made in the last two weeks of the year are considered likely to be speculative claims as a result of the legislative changes, therefore the Authority has only provided for 50% of the estimated outcome for applications made between the 16th-23rd March and 25% for any application on or after 23/03/2015 (new judgement in year) – this amounts to a difference of £294,157 (after taking into account the above two judgements).

If these three judgements were incorrect it would result in an increase in the liability by £1,351,926. This is a significant amount and would result in a material misstatement.

The Authority carried out an exercise to review appeals expected to be settled after 1st April 2016. The total value of these appeals is estimated by Analyse LOCAL to be £1,022,271. The Authority undertook further work to assess the seven largest appeals (totalling £820,285) and these were all concluded to be highly unlikely to succeed.

The Authority also considered the reasonableness of its judgements by calculating its potential liability based on historic trends and comparing this to the total arrived at when applying the above judgements. In the past 10 years the success rate of appeals lodged against the Authority was 28%. Applying this rate to the maximum potential liability from claims lodged gives a liability of £465,000 which is not materially different from the Authority's estimated liability included in the accounts.

To consider the reasonableness of these judgements, we reviewed the basis for each through enquiry with management and Inform CPI. We also carried out an analysis of past trends in appeal outcomes as well as the outcome of appeals since the 31 March 2015.

It was identified that over half of all appeals lodged by business ratepayers in Hinckley and Bosworth were withdrawn since 2005, indicating it is appropriate to include a reduction for those appeals assessed by Analyse LOCAL as potential withdrawals.

We enquired with Inform CPI as to whether they were aware of there being an influx of speculative appeals in the last two weeks of March as a result of the legislative changes. They advised that there may well have been speculative claims but from their perspective there is no conclusive way to determine whether a claim is speculative or not and therefore they applied a consistent methodology regardless of the date of submission. Therefore, while there is no clear basis for the specific percentage used by the Authority, the assumption that there are speculative appeals is reasonable. As mentioned above, removing this judgement does not in itself lead to a material difference in the estimate.

We also assessed the reasonableness of the provision overall by reviewing the accuracy of the prior year estimate. We found that the prior year provision had been underestimated by £310,000. We carried out an analysis of the movement in appeals data and found no clear trends that provide more information on the judgements taken in the prior year. The difference was due to a higher success rate and larger awards determined by the Valuation Office Agency. While the difference is significant it is not considered to be material to the accounts.

We asked that the Authority keep under review the outcome of outstanding appeals as well as the impact of any new appeals lodged since the year end relating to business rates for 2014/15 as well as previous financial years. The most up to date information on appeals available is from June 2015. This information indicates that there has not been any significant movement in the number or value of appeals since 31st March 2015.

We consider it important to take into account the impact on the Authority's reserves should the success of business rates appeals differ significantly to the success rate estimated by the Authority in determining its provision. The Authority's retained business rates income is currently £2,360,000. If this falls below 92.5% of the baseline funding level of £2,314,477 (i.e. £2,140,891) if would trigger the 'safety net'. This limits the Authority's liability to £173,586 as additional costs will be covered by the Department for Communities and Local Government. The Authority has already set aside £170,000 in a reserve to cover potential costs. It should also be noted that this position is based on the net rates received and the Council is expecting business rates growth in future years from the Crescent and other developments.

It is highly probable that further appeals will be lodged relating to previous financial periods. However, without an appeal actually being lodged, the Authority has taken the view that a reliable estimate cannot be determined without knowing the number and type of appeals. Instead, a contingent liability has been disclosed.

Land Charges Litigation

As at 31 March 2015, the Authority was aware of a national litigation case taking place regarding charges for local land services. The Authority provided £290,000 for the costs based on an estimation of the claim determined by external counsel, this was the best estimate at the time of preparing the accounts.

Since 31 March 2015, however, the case has been settled with a payment of £165,000 made in June 2015. Given this is more up to date information regarding conditions that existed at the balance sheet date, management have agreed to adjust the accounts accordingly.

Valuation of property, plant and equipment (PPE)

Property, Plant and Equipment is the largest figure on your Balance Sheet valued at £164,911,000 at 31 March 2015.

In accordance with your accounting policies, to ensure that the carrying value of property, plant and equipment reflects its fair value, your housing stock and other land and buildings are revalued on an annual basis as at the 31 March.

This involves reliance on an external valuer. In 2014/15, you appointed Wilks Head and Eve LLP who replaced your previous valuers Sturgis, Snow and Astill, Chartered Surveyors.

To assess the appropriateness of the methodology and key inputs used by Wilks Head and Eve LLP (WH&E), we consulted with our property valuation experts.

Social Housing

Existing Use Value for Social Housing

Residential housing stock assets are measured at Fair Value using the Existing Use Value–Social Housing (EUV-SH).

WH&E has adopted a beacon approach for valuing council housing stock which for the foreseeable future will remain as council housing with no requirement for demolition and redevelopment. The beacon approach involves categorising assets by class of property, valuing a representative sample of these assets and then extrapolating the results across the entire population. This is a very common approach to valuation and one we have seen adopted on other local authority valuations, as it is more efficient than valuing each asset individually.

In order to derive the EUV-SH, WH&E have allowed for the reduction in value of the property if it were sold with sitting tenants enjoying rents at less than open market rents and tenants' rights including the Right to Buy. The deductions used (34%) are those recommended by the DCLG (Department for Communities and Local Government) and therefore there is limited scope for valuer judgement. This is deemed to be in accordance with the Government guidance and is an appropriate method which we have seen adopted by several other local authorities and valuers.

The valuation of council dwellings as at 31 March 2015 was £128.937m which resulted from a significant net revaluation adjustment upwards of £20.952m.

We reviewed the Gerald Eve report commissioned by Public Sector Audit Appointments Limited to assess whether the movements in relevant market indices are consistent with the valuation changes in year. The Gerald Eve report states that there was an increase in house prices from Q1 2014 to Q1 2015 of 4% in the East Midlands. House prices are a key input into determining the beacon value in the valuation of council dwellings. This increase lends support to an upwards revaluation in year.

Non - housing property valuation

Conversely, the revaluation of non-housing property resulted in a more modest net downwards movement of £2.6m in year. However, the market forces relating to the valuation of these assets do differ to social housing. A summary of the methodologies and key inputs used by WH&E are discussed below.

Existing Use Value (EUV)

The valuation basis for non-housing property which is considered to be used or consumed for the delivery of the housing function, e.g. estate shops as well as non-specialised property is Fair Value for the asset in Existing Use. This is deemed an appropriate basis of valuation for such properties and is in line with other valuers.

Market Value (MV)

Non-housing property may also be classified as Investment Property (IP) if the purpose of these properties is considered to be the earning of rentals or for capital appreciation, rather than the facilitation of service delivery. In this case the basis of valuation is Fair Value represented by Market Value which will reflect any current leases, current cash flows and any reasonable assumptions about future rental income or outgoing and redevelopment opportunities. This again is deemed an appropriate method of valuation, as it accurately reflects the condition and circumstances of the properties. This is an approach we have seen elsewhere and is considered appropriate.

Specialised buildings

Specialised buildings, where there is no market to assess an entry value, are assessed on the gross cost of rebuilding the asset with the same service potential, less an allowance for depreciation and obsolescence to reflect the fact that the existing property is worth less than a new replacement. This is known as the Depreciated Replacement Cost (DRC) approach.

This is the correct approach to adopt for valuing specialised buildings and is one which has been adopted by other valuers on similar assets. As a result, this approach is deemed appropriate.

Valuing the land element in DRC

In a DRC valuation, the Valuer values the land area separately and adds it to the depreciated building replacement cost to arrive at the reported value for the asset as a whole.

WH&E's approach is to split the site area between a) what is developed (i.e. the footprint of the building) and b) any remaining ancillary land and to value each element using different approaches. The value of the developed land area is calculated as a percentage of the building replacement costs. Any additional land not built upon is valued on the basis of a capital value per hectare.

WH&E acknowledge that some valuers may adopt a market approach. However, they consider such an approach will reflect higher land values for alternative (higher value) uses (e.g. residential) which are not appropriate to value land under restricted specialised use. They consider a market approach may overstate the value for accounting purposes.

WH&E consider the link to replacement build costs reflects the non-commercial nature of the developed land. The percentage of build costs used to calculate developed land value is not fixed. WH&E advise that they flex the percentage (broadly between 7.5% and 15%) according to asset circumstances and in discussion with property managers and management.

In our view, the land value should reflect the price the Authority would have to pay in the open market to replace the land as we would expect that the Authority would be bidding for sites against other market bidders (such as residential developers) and so might need to pay the market price for residential land to acquire the site. Therefore, our preferred approach is for all of the land to be valued on a capital value per hectare basis.

To assess the impact this assumption has had on the valuation, we have requested the total land hectares for each DRC valued asset so that we can compare what the land values would be had the non-developed land value per hectare been applied to both the developed and non-developed land. We do not expect the difference to be material as this valuation methodology has only been applied to a small number of assets.

Base Data

We tested that the base data, namely gross internal floor areas, land hectares, rental values, and dwelling numbers and types provided to the valuer and formed the basis for the valuation was accurate by vouching to supporting documentation.

We found the Gross Internal Area used by the Authority's valuers was incorrect for two buildings. This resulted in a net decrease in asset valuation of £127,000 which has been adjusted.

We are currently awaiting confirmation from the valuers of a number of the gross internal floor areas used in the valuation and have enquiries outstanding relating to the number of council dwellings valued in the year.

We will provide a verbal update at the meeting regarding the resolution of our remaining enquiries.

Pensions Liability

One of the most significant estimates in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Local Government Pension Scheme. Your net pension liability at 31 March 2015 was £38.603 million (2014 - £31.142 million).

We utilised the work of our actuarial experts to assess the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We also validated the data supplied to the pension fund's actuary on which to base their calculations.

We did not identify any matters to report arising from our work performed.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

In addition to standard representations we will ask management to make specific representations on the business rates appeals provision, the use of the work of experts, the application of accounting policies and the accounting for the Leicestershire Revenues and Benefits Partnership.

Related Parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We verified related party relationships and transactions disclosed to declaration of interest forms, and to the General Ledger. We also compared related parties disclosed on the Authority's website to a full list of suppliers for 2014/15, to verify there were no undisclosed related party transactions. Furthermore, completeness checks were carried out to ensure no undisclosed related parties existed.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff in senior positions who had been directly involved in the external audit of the Authority being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority during the 2014/15 financial year amounting to a total value of £3,250 relating to a review of the Authority's partial exemption (VAT) position. Under the contract with PSAA, we are also carrying out grants certification work in 2014/15. The indicative fee for this work is £19,330. Details of all non-audit work including our threats and safeguards assessment was set out in our audit plan presented in February 2015 and the External Audit update paper presented in April 2015.

Members will be aware that PwC will be appointed as the Council's Internal Auditors, following the completion of our external audit work. In April 2015 we set out for the Finance and Performance Committee how we would manage any risk around our independence arising from this new arrangement.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 15. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is Public Sector Audit Appointments Limited's (PSAA) policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The PSAA's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity. We confirm that we comply with PSAA's rules on rotation.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Finance, Audit and Performance Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

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.

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.

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 the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The guidance includes 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.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. See the section *Targeted audit work* below (pages 9 to 11) for details on the results of work performed.

Targeted audit work

In our planning risk assessment we identified the following areas for detailed review:

Meeting the financial challenge

All local government organisations are faced with increased challenges in their medium term financial outlook, primarily driven by marked reductions in funding both directly from central government and indirectly through a reduction in income from the County.

The Authority 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 Authority has a budget setting process which includes measures to ensure planned savings are achieved including, for example, service reviews and the review of fees and charges. Throughout the year the budget is scrutinised and re-forecast as appropriate allowing for prompt action to be taken as required.

The 2014/15 budget was approved by Council in February 2014. By the end of 2014/15 the Authority reported a net under spend against budget of £1,531,641. This resulted from a combination of expenditure savings and additional income. The main elements were additional income from planning applications, legal costs recovered from revenues and benefits recovery action, reduction in costs for planning documents, additional income from recycling credits, sales of materials and business rates growth under the Business Rates Retention scheme. A large element of this underspend has been placed in reserves to finance future costs associated with capital incentives for the Crescent development.

The Authority's 2013/14 to 2016/17 Medium Term Financial Strategy (MTFS) was approved in May 2014 and an abbreviated MTFS (2014/15 to 2017/18) was approved in March 2015. A full revision is planned for later in the financial year. The MTFS seeks to build upon the Authority's track record of developing and delivering a financial plan to secure the Authority's continuing financial resilience.

In September 2014 a budget strategy for 2015/16 was presented to Council setting out the objectives of the upcoming budget exercise. The 2015/16 budget approved by Council in February 2015 has managed to achieve a budget position that is consistent with the best case scenario set out in the May 2014 version of the MTFS due to the agreement to a number of the targets that had been set, most notably the agreement to retain New Homes Bonus that was previously passed on to parish councils generating additional income of £343,000 for the Authority.

As at Quarter 1 of 2015/16 the Authority is forecasting a net under-spend of £127,756. The Authority has seen an increase in planning fee income greater than forecast (£200,000). The Authority also excluded from its initial forecast position the section 31 grant income (£520,000) it was awarded because the final amount is dependent on the business rates outturn at the end of the financial year. The current estimate is that this income will be recognised in the outturn for the year.

In order to achieve the required savings from 2016/17 onwards, new targets have been set and communicated to Council in the 2015/16 budget strategy. If the targets set are not met the worst case scenario sees the depletion of the Authority's reserves from 2016/17. The most significant of these targets is the £486,000 income gap as a result of a reduction in waste management income from the County Council (note this has increased to £550,000 as a result of an increase in the Authority's recycling contract).From review of Council minutes we understand that four options to reach this target were presented to members during the 2014/15 financial year. Since the year ended 31 March 2015, however, members have dismissed these options and are still in the process of working through an alternative solution. At present, without a solution, the income gap will reach £1m by 2016/17. In all cases, the options will require consultation exercises and changes in internal processes and systems and therefore direction from members is required urgently to allow time for these processes to take place.

Housing Revenue Account (HRA)

The Authority approved a HRA investment strategy in July 2013 which included plans to expand the Authority's housing stock. It is planned that £10 million will be invested into Affordable Housing. In 2014/15 the Authority purchased four new build properties. The properties are to be held as Housing land and form part of the Authority's Housing stock. Two will be rented and allocated through the Choice Based Lettings Scheme and the remaining two will be shared ownership properties, available to qualifying households. In 2015/16 and 2016/17 the focus will be on developing new homes. The provision of additional affordable housing will increase rental income to the HRA as well as generate New Homes Bonus (income to the General Fund).

Conclusion

The Authority has been able to demonstrate that arrangements had been in place to secure financial resilience during the 2014/15 financial year. However, we note that unless that £1m income gap in the medium term is addressed during the 2015/16 financial year, the Authority may be in danger of not being able to balance its budget for 2016/17.

Whilst the Authority has a balanced budget for 2015/16, any further delay in determining plans to meet the savings gaps for future years poses significant risks including the:

- inability of the Authority to generate new income/achieve savings in a shorter time period; and
- depletion of the Authority's reserves which may impact capital plans and wider financial resilience
- failure to meet the Authority's legal responsibility to set a balanced budget each year.

The Crescent

The Crescent development is a key corporate priority for the Authority. It is expected to generate over 600 new jobs, provide retail, leisure and other facilities including an improved bus station and car parking site.

We have kept under review the arrangements put in place by the Authority to monitor progress of the development. These include a joint project board that meets monthly with a standing agenda covering all key areas that would be expected, including development progress, legal matters, financial matters, lettings strategy, and communications. A risk register is used and is updated on a monthly basis incorporating a summary of mitigating actions taken against each risk.

The Authority will purchase Block C on completion of the development for £4.5 million. The Authority expects to realise a return on investment in Block C through projected rental income and business rates income as well as an estimated £1.2m of development profit.

In addition to Cineworld, four out of the remaining nine units in Block C are currently under offer. Expected rental rates for these units are better than anticipated as a result of potential occupiers preferring capital incentives over rent free periods. Five units still need to be filled however, which presents a risk to both the level of income to be received (which impacts on the MTFS) and future potential development profit (which impacts on the funding required for the leisure centre). The Authority has set aside savings of £1.6m in the Masterplan Reserve to fund the costs associated with lettings incentives.

The Authority has been in continuous dialogue with their letting agents in response to the slower uptake of units.

The Authority has also confirmed with the developer that the £1.2m estimate of development profit continues to remain appropriate'

Leisure Centre

We obtained and reviewed the signed contract with Places for People Leisure. Construction of the facility is progressing on schedule and is expected to be completed in 2016. Regular monitoring of capital costs is carried out and a rolling cash flow spreadsheet for the life of the contract is updated on an ongoing basis.

Despite increased capital costs from a late decision to install a moveable floor in the swimming pool and additional grounds works required, the gross management fee payable to the Authority under this contract will be an average of £899,293 per annum which is greater than the second preferred bidder had been offering at the tender stage (£540,000).

The capital costs are expected to be partly funded through capital receipts, namely the sale of the depot (estimated £1.65m) and the development profit from the Crescent (estimated £1.2m).

The depot receipt is estimated to be received in May 2016. The Authority initially intended to sell the depot on the open market, but now the current intention is to sell it to the Authority's subsidiary, the Housing Development Company (recently set up by during the 2015/16 financial year). The amount of the sale will be the market valuation at the time. The timing of the sale is dependent on how quickly the company is able to develop its business case and fulfil necessary planning requirements.

Until completed and the final amounts known there is a risk that insufficient receipts will be received to fund the leisure centre costs and alternative funding sources, such as additional borrowing, will need to be utilised.

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial 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 Statement of Accounts and our review of the Annual Governance Statement.

We are pleased to report that there were no significant control deficiencies noted that we believe should be brought to your attention.

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 objectives 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 responsibility as part of your governance role is:

- 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

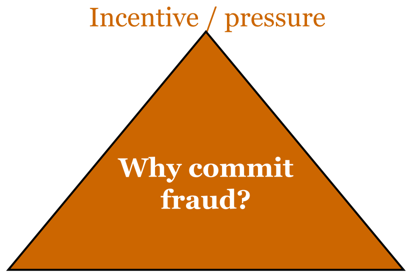
In our audit plan presented to the Finance, Audit and Performance Committee in February 2015, we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower 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, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure



Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Fees update

Fees update for 2014/15

We reported our fee proposals in our plan which were based on the scale fee communicated to us by PSAA. The scale fee is based on the overall requirements in relation to the audit of the financial statements not varying significantly from that of the prior year.

When we presented our audit plan to you we did not foresee a significant change in the overall requirements. However, since then we were required to perform additional work on the material transactions relating to the Squash Club which included a technical consultation. As a result, our outturn costs have exceeded those budgeted to achieve the scale fee and we are proposing to seek a fee variation to recover these additional costs.

Once our outturn fee is discussed and agreed with management as well as the PSAA we will communicate the final fee to you.

	2014/15 outturn	2014/15 fee proposal
Statement of Accounts including whole of government accounts and Value for Money conclusion	**TBC**	**65,880**

Non-audit work

We also performed non-audit work which fell outside of the Code of Audit Practice requirements. Our proposed and actual fee for that work was £3,250.

Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to the Finance, Audit and Performance Committee later in the year within the Certification Report to Management in relation to 2014/15 grants. The indicative fee is £19,330.

Appendices

Appendix 1: Letter of representation

[Entity letterhead]

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
DE74 2UZ

Dear Sirs

Representation letter – Audit of Hinckley and Bosworth Borough Council's (the Authority) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Deputy Chief Executive (Corporate Direction) for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the

Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- The results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- All information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

  – management;

- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the Statement of Accounts.

- All information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- All known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Business rates appeals provision

Regarding business rates appeals, an accounting estimate that was recognised in the Statement of Accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

- I confirm that I am not aware of any reason to suggest that the three judgements listed below are not appropriate:
    - I have not provided for appeals that have been assessed by Analyse LOCAL as *potential withdrawals*
    - I have not provided for appeals that Analyse LOCAL have assessed as *likely to be settled after the 1 April 2016* as these are likely to be dismissed; and
    - A large proportion of appeals made in the last two weeks of the year are speculative claims, therefore I have only provided for 50% of the estimated outcome for applications made between the 16th-23rd March and 25% for any application on or after 23/03/2015.

- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Bank accounts

I confirm that I have disclosed all bank accounts to you.

Subsequent events

Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Using the work of experts

I agree with the findings of Wilks Head & Eve LLP, Hymans Robertson and Inform CPI Ltd experts in evaluating the value of property assets, the fair value of pension fund assets and liabilities and the business rates appeals provision respectively. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Accounting for Leicestershire Revenues and Benefits Partnership

I have disclosed to you all information concerning the Authority’s accounting for the Leicestershire Revenues and Benefits Partnership (“the Partnership”) in the Council’s role as accountable body. I have determined that the remaining debit balance of £50,486.03 in the ledgers for the Partnership reflects the cash balance that is held within the Authority’s bank account.

I acknowledge that at the end of 2014/15 the Partnership recorded a total under-spend of £68,028 for the three partner councils. I confirm that the Authority has agreed that the Partnership should retain the Authority’s share of this under-spend and so this has not been recognised as a liability in the Authority’s financial statements.

As minuted by the Authority at its Finance, Audit and Performance Committee meeting on 7 September 2015

....

Deputy Chief Executive (Corporate Direction)

For and on behalf of Hinckley and Bosworth Borough Council

Date ....

Appendix 1 - Related parties and related party transactions

Related Party	Transactions
Central Government and other Local Authorities	Details provided within Note 31: Grant Income, Note 19: Short Term Receivables and Note 20: Short and Long Term Payables of the Statement of Accounts
Leicestershire County Council	£1.677 million – income £44.154 million - expenditure
Leicestershire Pension Fund	£1,664,859.35 - expenditure
Community Action, Hinckley and Bosworth	£26,320 - expenditure
Two family members of one Member of the Council	£483.50- expenditure
Voluntary and Community Services Commissioning Board	£13,000 - expenditure

130610-142627-JA-UK