

Agenda Item No 7

Executive Board

13 September 2011

**Report of the
Deputy Chief Executive**

External Auditors' Report

1 Summary

- 1.1 The main purpose of this report is to inform Members of the External Auditors' report to those charged with governance.

Recommendation to Council

That the contents of the External Auditors' report be noted.

2 Report on the Financial Statements

- 2.1 The Council's appointed auditors, PricewaterhouseCoopers LLP, have completed their audit of the 2010/11 financial statements. A report on work undertaken by the auditors is attached as Appendix A.

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3 Report Implications

3.1 Finance and Value for Money Implications

- 3.1.1 These are covered in the Auditors' report.

The Contact Officer for this report is Sue Garner (719374).

Background Papers

Local Government Act 1972 Section 100D, as substituted by the Local Government Act, 2000 Section 97

Background Paper No	Author	Nature of Background Paper	Date

Government and Public Sector
***North Warwickshire
Borough Council***

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

September 2011

2010/11 Audit



The Members
North Warwickshire Borough Council
Council Offices
South Street
Atherstone
Warwickshire
CV9 1DE

8 September 2011

Ladies and Gentlemen,

We are pleased to enclose our report on our audit of the accounts of North Warwickshire Borough Council ("the Council") for the year ended 31 March 2011.

The scope and focus of our audit work was summarised in our Audit Plan, which was discussed and agreed with you at your meeting in April 2011.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements following your approval of the accounts on 13 September 2011. At the time of writing, the key outstanding matters are:

- our review of the final version of the financial statements with all of the agreed changes having been made;
- approval of the financial statements by the Executive Board; and
- receipt of all relevant signed statements and the management representation letter.

We look forward to discussing our report with you at your meeting on 13 September 2011.

Yours faithfully

PricewaterhouseCoopers LLP

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

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

1. *Executive summary*

The purpose of this report

In accordance with International Auditing Standards we are required to report to you the significant findings from our audit before giving our audit opinion on your accounts.

This report contains the significant matters we wish to report to you arising from all aspects of our audit programme of work. Our audit work during the year was performed in accordance with the Plan that we discussed and agreed with you in April 2011.

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

Comments

Quality of accounts and working papers.
Readiness for start of audit and availability and responsiveness of staff.



The Council prepared its accounts on a timely basis with a first draft of the accounts available at the start of the audit. Working papers were available for audit on time and key staff were available so that we could make a prompt and efficient start to our work on the first day we arrived. Working papers 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 minor adjustments to the accounts were requested and agreed.

A number of disclosure amendments were also identified which have been amended appropriately. The volume of disclosure amendments required was higher than previous years. However, this is considered to relate largely to work required to account under International Financial Reporting Standards (IFRS) for the first time in 2010/11.

Compared to other authorities, the Finance Team performed well in preparing for, and restating the financial statements on an IFRS basis.

We anticipate issuing an unqualified audit opinion once the Executive Board have approved the financial statements.

Significant audit and accounting issues.



Our audit identified no significant issues. The net impact of the adjustments made to the accounts has been to increase General Fund balances by £8,000 and increase net assets by £8,000.

Deficiencies in internal control systems.



We are pleased to note that we did not identify any material weaknesses in the accounting and internal control systems during our audit. A small number of minor control weaknesses were noted and these will be reported separately to the Deputy Chief Executive.

Use of Resources/Value for Money conclusion.



We anticipate issuing an unqualified value for money conclusion. We report in more detail a summary of our work and findings in this area in section 5.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our work.

2. Review of draft 2010/11 financial statements

Comprehensive Income and Expenditure

A summarised version of your Comprehensive Income and Expenditure Statement for 2010/11 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2010/11 '£000	2009/10 '£000	Movement '£000	Note Reference
Net Cost of Services excluding non distributed costs	36,900	6,373	30,527	Note 1
<u>Non Distributed Costs</u>	<u>(3,703)</u>	<u>27</u>	<u>(3,730)</u>	Note 2
Net costs of services	33,197	6,400	26,797	
Other Operating Expenditure	988	1,714	(726)	
<u>Financing, Investment, taxation and grant income</u>	<u>(9,520)</u>	<u>(9,670)</u>	<u>150</u>	
(Surplus)/Deficit on Provision of Services	24,665	(1,556)	26,221	
Other comprehensive (income)/expenditure	(38)	0	(38)	
Total comprehensive income and expenditure for the year	24,627	(1,556)	26,183	

Note 1 – The Council's net cost of services have increase year on year. The movement is, in the main, attributable to the impairment of the Council's non-current assets. The impairments of the Council's assets is discussed in further detail in section 4 of this report.

Note 2 – The Council has included £3.75 million of non-distributed income relating to past service costs attributable to the pension liability. This change has come about as a result of a change in the basis of pension fund calculations. This change has also impacted directly on the Council's overall pension liability recorded in the Balance Sheet. Further details on this balance are also provided in section 4 of this report.

The Balance Sheet

A summarised version of your Statement of Financial Position for 2010/11 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2010/11 '£000	2009/10 '£000	Movement '£000	Note Reference
Long Term Assets & Assets held for sale	128,904	156,762	(27,858)	Note 1
Short Term Debtors	4,940	2,657	2,283	
Other current assets	6,926	5,627	1,299	
Total Assets	140,770	165,046	(24,276)	
Current Liabilities	(9,916)	(6,252)	(3,664)	
Long term Liabilities	(16,508)	(25,563)	9,055	Note 2
Net Assets	114,346	133,231	-18,885	
Unusable Reserves	101,780	123,038	-21,258	Note 1
Usable Reserves	12,566	10,193	2,373	
Total Reserves	114,346	133,231	-18,885	

Note 1 – There are a number of movements contained within this net figure including acquisitions, assets under construction and depreciation. However, the single largest impact relates to the reduction in value of non-current assets, and more specifically a £27.74 million reduction in the value of the Council's housing stock. This has also impacted on the Council's unusable reserves. We have completed our audit work on this balance and include further detail in section 4 of this report.

Note 2 – As reflected in the Comprehensive Income and Expenditure Statement, the decrease in long term liabilities has largely been impacted by a change in the basis of pension fund calculations.

3. *Updating you on our risk assessment and audit response*

Risk Assessment

We reported our planned audit approach to you in April 2011. Our Audit Plan included the risks to be addressed as part of the audit and the work we planned to do in response.

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

Risks (as identified in the audit plan)	Audit response
<p>Management Override of Controls</p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this significant risk and adapt our audit procedures accordingly.</p>	<p>We have updated our understanding of the Council's controls around journals and gained some assurance on the Council's arrangements for dealing with staff leavers, in particular controls over physical security and access to systems.</p> <p>Our final accounts procedures included testing of:</p> <ul style="list-style-type: none"> • the appropriateness of journals processed during the year; • key year-end control account reconciliations, including the bank reconciliation; • transactions recorded after the year-end; and • significant accounting estimates. <p>No significant concerns were identified as a result of this work.</p>
<p>Impact of the economic climate: financial position</p> <p>The Council is experiencing increased pressures on many of its budgets as the full force of the economic climate begins to impact on the public sector.</p> <p>The Council already faces a number of financial challenges and there is every likelihood that, following the Comprehensive Spending Review, tough decisions on service provision will need to be made.</p> <p>In difficult economic conditions pressure on individuals to misrepresent or miscode income or expenditure inevitably increases. At a time when the Council is likely to be experiencing increased demand for its services whilst funding decreases, risks relating to the processing and documentation of financial data increase.</p>	<p>We sought to understand, evaluate and validate the controls relating to income and expenditure and tested them to confirm they were operating effectively during our interim audit visit. During our final audit we evaluated the accounting policies for income and expenditure recognition and tested:</p> <ul style="list-style-type: none"> • the appropriateness of journal entries and other adjustments; • a sample of detailed income and expenditure transactions; and • accounting estimates for provisions, expenditure, deferred revenues and income. <p>We identified one small amendment to the Council's income balance as a result of work completed and the financial statements have been adjusted accordingly.</p>

Risks (as identified in the audit plan)**Audit response****2010/11 – the first year of reporting under IFRS**

The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.

The following are some of the more significant areas of focus:

Leases

IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately.

Component Accounting

The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently broken down into their component parts, there is a risk that depreciation charges might be materially understated.

Accruals for Employee Benefits

The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end and for the disclosure of termination benefits.

We reviewed the draft financial statements provided by the Council against the requirements of IFRS and considered the adjustments made to the prior year figures in order to support the transition to IFRS.

Additionally, a review of the financial statements by an IFRS expert was undertaken.

We have performed specific audit procedures on the following areas which were identified as specific risk areas upon transition to IFRS:

- component accounting for non-current assets;
- valuations for non-current assets;
- lease accounting;
- accruals for employee benefits; and
- disclosures in the accounts.

There were no significant issues arising from our work that we wish to draw to the attention of members of the Executive Board.

Some minor control recommendations were identified for future consideration by management. None of these were of such significance to require drawing to your attention.

Risks (as identified in the audit plan)	Audit response
<p>Valuation of Assets and Revaluation Reserve</p> <p>The economic climate has caused falls in the value of many land and building assets, and the risk of such assets being overvalued on the balance sheet remains high. We will expect the Council to have carried out impairment reviews to ensure that assets are not overvalued at the year end, and to process downward revaluations where appropriate.</p> <p>It is therefore important that the Council's approach to assessing the carrying value of fixed assets is well documented and the assumptions which have been made are clear.</p>	<p>We have reviewed the valuation methods and assumptions applied by the Council's valuer and concluded that these are appropriate.</p> <p>Further details are given in section 4 below.</p>
<p>Bad debt</p> <p>The economic downturn is likely to have increased the risk of the Council suffering losses due to bad debt. The Council will need to have assessed the collectability of debts, and reviewed its bad debt provision, to avoid overstating its debtors.</p>	<p>We have reviewed the adequacy of the Council's provision for bad and doubtful debt and deemed it to be reasonable. We also sought to understand and evaluate the Council's controls and processes for reviewing and recovering old debt and found no significant weaknesses to report.</p>
<p>Outsourcing arrangements for payroll</p> <p>Since April 2009 the Council's payroll has been operated by Warwickshire County Council.</p> <p>The Council will need to ensure that the governance in place surrounding this arrangement is robust and must recognise that this arrangement is not a substitute for adequate monitoring controls being maintained within the Council to ensure it meets its fiduciary and other legal responsibilities.</p>	<p>We have considered the Service Level Agreement which has been implemented between the County Council and the Council during this financial year. We have considered the controls which are in place and found these to be operating effectively.</p>
<p>Capital programme</p> <p>The Council has a significant capital programme to complete over the next 10 years.</p> <p>The programme is partially dependent on the release of funds through the rationalisation of the Council's estate. With lower levels of receipts now available to the Council in the Usable Capital Receipts reserve, future capital funding will need to come from increased borrowing or through the use of revenue resources.</p>	<p>We tested a sample of capital expenditure additions and verified that assets have been brought into use in the correct period. We identified no issues in this work.</p> <p>See section 5 for further details.</p>

4. *Significant audit and accounting matters*

Financial statements

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion. At the time of writing, the key outstanding matters are:

- our review of the final version of the financial statements with all of the agreed changes having been made;
- approval of the financial statements by the Executive Board; and
- receipt of all relevant signed statements and the management representation letter.

Accounts preparation

Preparing draft accounts by 30 June in the first year of IFRS has been challenging for all local authorities. A significant amount of work has been completed across the Council to review historic records and to consider the impact of IFRS. We agreed in advance what we would need for our audit and this was ready for us when we arrived.

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

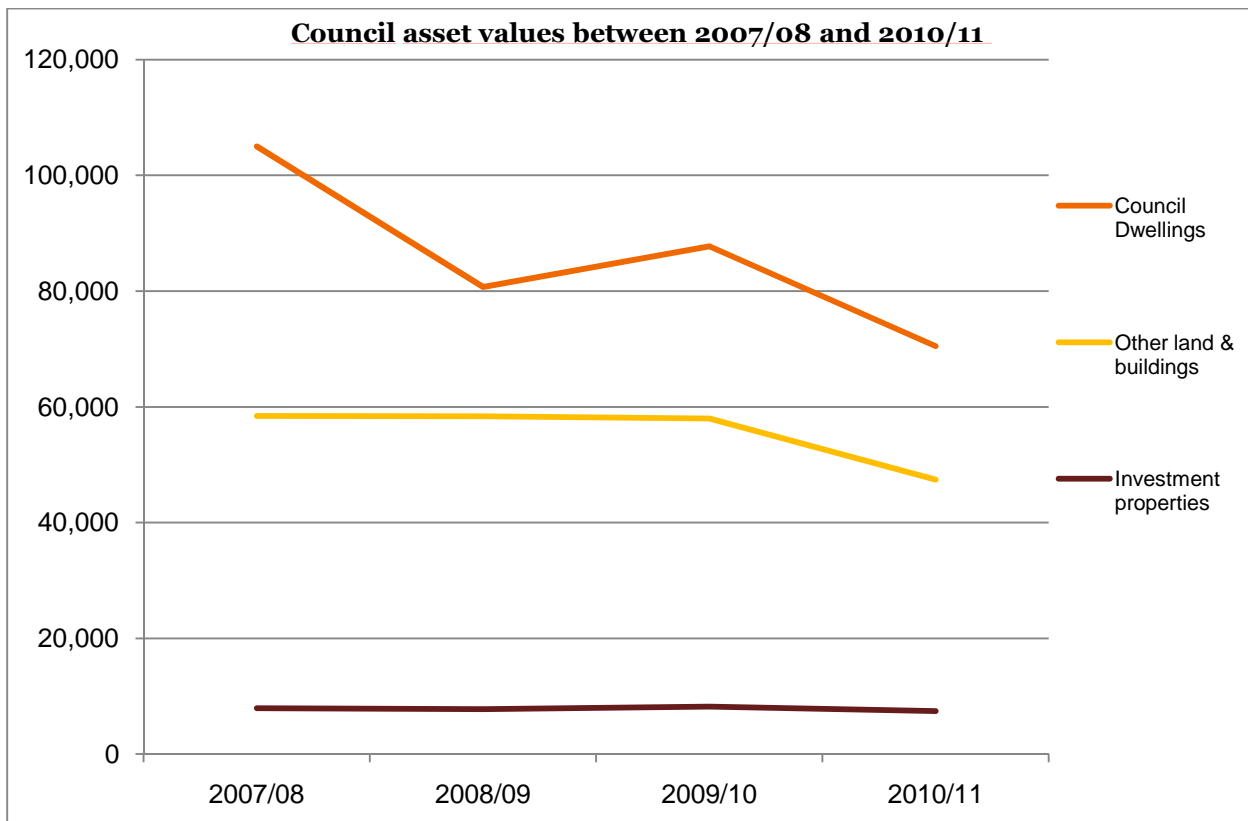
Accounting issues

Valuation of non-current assets

The valuation of the Council's property assets is 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 was as follows:

- Council dwellings - £70,941,000
- Other land and buildings - £49,750,000
- Investment properties - £7,461,000

The diagram below demonstrates the movement in asset values over the last four years. This partly reflects the volatility in the market that the Council is now operating in.



The Council engaged the services of its internal valuer, a qualified chartered surveyor, to assess the value of the properties on the Council's behalf. We have reviewed the assumptions applied by the valuer and have identified no significant issues.

We also sought to validate the accuracy of the underlying data upon which the valuation is based for each of the categories of assets referred to above.

Council dwellings

The Council applies the 'beacon principle' in assessing the value of the 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 49% to 34% between 2009/10 and 2010/11 resulting in a reduction of approximately £27.74 million 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 does reconcile directly to the Council's own housing records.

Other land and buildings

The valuer maintains his own records for building size, and condition to assist his calculations. There is no reliance on data provided 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 occupancy and state of repair.

Misstatements and significant audit adjustments

Uncorrected misstatements

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We are pleased to note that there are no misstatements identified during the course of our audit, which remain unadjusted.

Adjusted misstatements

The net impact of the adjustments made to the accounts has been to increase General Fund balances by £8,000 and increase net assets by £8,000.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Council to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

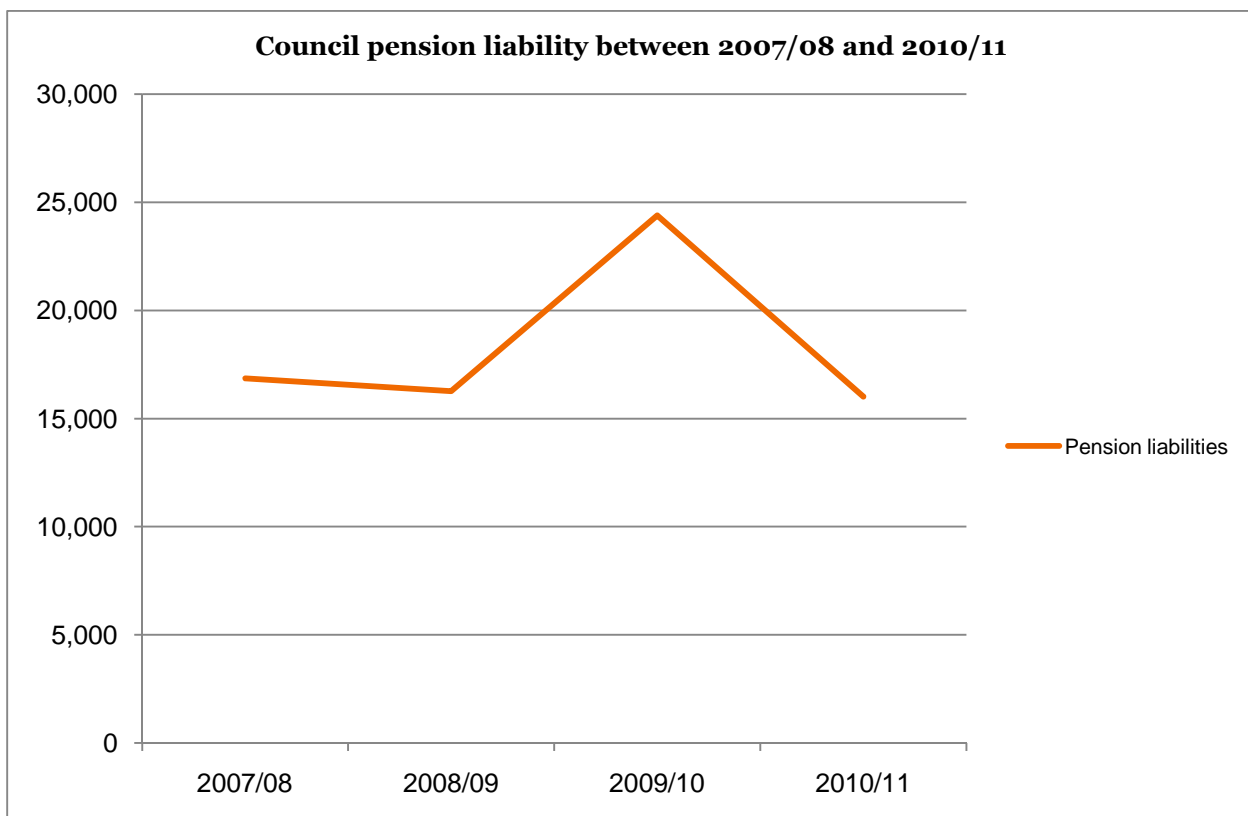
Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the financial statements.

Pensions liability

The most significant estimate included in the financial statements is in the valuation of net pension liabilities for employees who are members of the pension fund administered by Warwickshire County Council. The net pension liability as at 31 March 2011 for North Warwickshire Borough Council was £15.76 million. This represents a decrease from prior year of £8.38 million. This significant movement is a result of a change in the basis of the inflation rate used in public sector pension funds from the retail price index (RPI) to the consumer price index (CPI), as announced by the Government in June 2010.

The chart below demonstrates the significant movements that may occur between years. These movements tend to be caused by an aggregate of actuarial assumptions and change in market conditions which will impact on pension fund asset values.



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

In accordance with ISA (UK&I) 620 'Using the work of an expert', we have also sought to validate the data supplied to the actuary on which to base their calculations.

Valuation of non-current assets

The valuation of non-current assets is a further area of significant judgement within the accounts. Our work on this estimate has been discussed in detail in the Accounting issues section above.

Accruals

Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Council knows that there is a liability to be met which relates to the current year. This involves a degree of estimation. Detailed testing was performed on significant accruals. No misstatements were identified from this work.

Bad Debt Provision

Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision, which is £185,977 as at 31 March 2011 (£187,348 as at 31 March 2010). We believe this approach to be prudent and consistent between years.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 3.

Going concern

There were no material uncertainties related to events and conditions that may cast significant doubt on the Council's ability to continue as a going concern. We have concluded that in overall terms, you have sufficient resources available to meet your commitments for at least a 12 month period after the date of our audit opinion. We have therefore concluded that the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.

	31/03/2011 (£'000)	31/03/2010 (£'000)	Movement (£'000)
General Fund	3,196	2,336	860
Earmarked Revenue Reserves	4,331	4,235	96
Total Revenue Reserves	7,527	6,571	956
Usable Capital Receipts	2,992	2,664	328
Major repairs reserve	1,057	1	1,056
Total Capital Reserves	4,049	2,665	1,384
Housing Revenue Account Balance	850	670	180
Earmarked Housing Revenue Account reserve	132	287	-155
Total Housing Revenue Account reserves	982	957	25
Total	12,558	10,193	2,365

The table above indicates that during 2010/11 the Council increased total revenue reserves by £1.22 million, at the same time as increasing capital reserves by £328,000. Housing revenue account reserves were also increased by £25,000. These are positive increases in such a challenging financial environment.

Audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Accounting systems and systems of internal control

It is the responsibility of the Council to develop and implement systems of internal control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

We have identified no issues that we wish to bring to your attention. The audit work we have conducted has identified a small number of minor control weaknesses which we will report separately to management.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE): 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Electors' questions or objections

There have been no electors' questions or objections raised regarding the financial statements to date.

Risk of fraud

As part of our work on fraud, we enquire with management as to whether there have been any actual, suspected or alleged frauds affecting the Council which as auditors we should be made aware of. We discussed with the Executive Board its understanding of the risk of fraud and of fraud issues when presenting our Audit Plan. To date we have not identified any material instances of fraud that would impact on our audit opinion. If this status changes between the date of this report and the signing of our audit opinion, we will be required to consider the impact on our audit opinion.

In presenting this report, we seek the Executive Board's confirmation that there have been no matters of which you are aware that have arisen in relation to the risk or incidence of fraud that should be brought to our attention. A specific confirmation from the Council in relation to fraud will be included in the letter of representation.

5. Value for money conclusion

Economy, efficiency and effectiveness

Our responsibilities as the Council's appointed auditors require us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is 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 have not been required to reach a scored judgment in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Based on the work we have undertaken, we anticipate issuing an unqualified value for money conclusion.

We have reviewed a large volume of evidence provided by the Council to support its own self-assessment. A number of the key documents are listed below:

- Agenda item 8: Financial Strategy 2011:15 – Executive Board 14 September 2010.
- Agenda item 7: Comprehensive Spending Review – Executive Board 29 November 2010.
- Agenda item 8: 3 year capital programme – Executive Board 7 February 2011.
- Agenda item 11: setting council tax – Executive Board 7 February 2011.
- Report of the Assistant Chief Executive and Solicitor to the Council on shared legal services.
- Hot Spot financial monitoring reports for October 2010 and February 2011.
- Report of the Assistant Director (Leisure and Community Development) on Atherstone Leisure Complex crèche.
- Summary pages of Self Financing HRA modeling February 2011.
- Example invest to save applications.

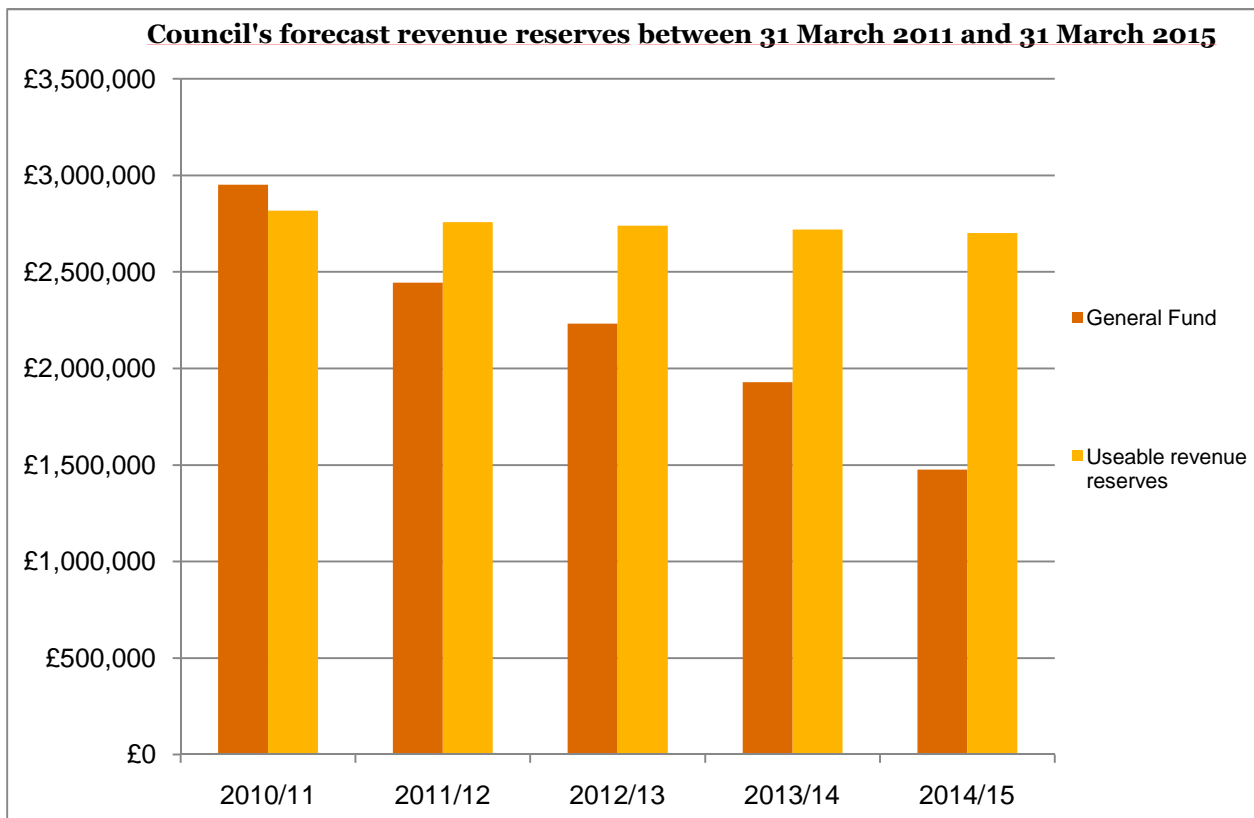
Financial resilience

All local government organisations are faced with increased challenges in their medium term financial outlook. North Warwickshire 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.

We are aware that the Council is in the process of re-drafting the Medium Term Financial Plan. However, we have not been made aware of any significant changes in the assumptions or underlying financial information in the versions submitted to the Executive Board in the past 12 months.

The Chart below shows the impact of the Council's medium term financial strategy on revenue reserves. The Council like many others will need to make use of reserves. The Council made a significant contribution to

reserves in 2010/11 which provides a significant financial buffer in the event that savings targets are not achieved or if future reductions in grant settlements are greater than anticipated.



The Council has maintained a strong reserves balance, although this will be reduced over the coming period.

The Council has continued to identify savings and anticipates the achievement of savings of more than £1 million by 2014/15. Savings initiatives have been identified in excess of this value and will be provided to the Council's members to appraise and make decisions. Through consideration of information available to us through the Audit Commission and as the auditor of a number of councils we believe that the Council's financial plans are based on prudent assumptions.

Our work has identified no significant issues regarding the Council's arrangements in relation to its financial resilience over the next 12 months.

Economy, efficiency and effectiveness

The Council has demonstrated that it has continued to provide services which provide high customer satisfaction at a cost which is the lowest of its nearest neighbours. The average spend per head of population is consistently lower when compared to the Council's nearest neighbours.

The proportion of residents who think the Council provides good value for money was 37.2% at the last survey date in 2008/09 compared to the median of 32%. The next results of this survey will be available in the coming months for 2010/11.

The Council has continued to investigate ways of delivering efficient services and has commenced a number of systems reviews. Initial indications from reviews completed in the housing department suggest that they will have a positive impact on both the quality of service and the cost involved.

The Council has a good understanding of its cost base and this has helped in decision making around service delivery and the opportunity to enter into shared service arrangements. When appropriate the Council has continued to investigate service design by benchmarking activities against other providers.

Overall, the information and evidence that we reviewed demonstrated that the Council continues to challenge the value it is able to deliver to customers.

Our work has identified no issues regarding the Council's arrangements to securing economy, efficiency and effectiveness in its use of resources.

As identified in our Audit Plan we also focused attention on one specific area of the Council's activities from a value for money perspective:

Capital programme

The Council has spent £4.55 million in 2010/11 against a capital programme of £5.75 million. A small number of projects were yet to be completed at the year end. These related primarily to new build housing stock. At the year end the amount of capital resource available to spend in future periods was £5.55 million.

In 2011/12 the Council plans to spend £4.12 million, however the focus continues to be on maintenance of the Council's existing housing stock.

The Council has reported that it will look to use its land bank for either new affordable housing for local needs, or to generate additional receipts for spending on its own stock or other capital priorities. During 2009, there was a major downturn in the economy, which has had a significant impact on both the ability of the Council to dispose of assets and on the value of the assets themselves. As a result the Council has taken the general view to await market recovery before actively disposing of assets.

In overall terms the Council has a small shortfall in capital resources over a 10 year period. In addition, due to the loss / delay in achieving the previously assumed capital receipts, there are funding pressures within the programme.

There are concerns that the Council has a funding gap. However, comprehensive papers have been produced for the Executive Board outlining all options. Some of these options include partnerships with local organisations as well as borrowing. The Council has clearly outlined the potential borrowing requirement and has reported the implications for the Treasury Management Policy.

6. Fees update

Audit plan

We issued our Audit Plan for 2010/11 and presented it to the Executive Board in April 2011. There have been no significant changes to our Audit Plan since this time.

Fees update for 2010/11

We reported to you our fee proposals as part of the Audit Plan for 2010/11. Our actual fees are expected to be in line with our original proposals as follows.

	2010/11 Outturn (£)	2010/11 Fee proposal (£)
Audit fee, including financial statements audit, Use of Resources/Value for Money conclusion, Whole of Government Accounts and IFRS transition work.	97,510	97,510
TOTAL	97,510	97,510

We have not yet completed our work on WGA return, as the Council is amending the draft return for audit changes to the financial statements, before submitting it for audit.

Grants, claims and returns

In addition, we perform work relating to the certification of grants on behalf of the Audit Commission. The fees for this work are not included in the table above. Work on grant claims is billed based upon time taken to certify each claim at rates prescribed by the Audit Commission.

Non-audit work

In May 2010 we performed work which fell outside of the Code of Audit Practice relating to assistance to the Finance Team with their review of leases as part of the transition to IFRS. Our proposed and actual fee for this work was £2,500. We do not consider that provision of this additional work has impaired our independence as the Council's auditors, as the following safeguards were in place:

- the firm and staff involved were independent from officers and PwC personnel used in the delivery of the work were not engaged in the delivery of any audit work;
- management retained ownership of the process. PwC gave no assurance over the work performed and all decisions were made by management; and
- the Council was the only intended user of the advice given, therefore no advocacy risk was realised.

Appendices

Letter of representation

13 September 2011

To: PricewaterhouseCoopers LLP

Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Your Ref: AB/LCM

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of North Warwickshire Borough Council (the "Authority") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Deputy Chief Executive for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Authority. I also acknowledge 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 North Warwickshire Borough Council 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:

Financial Statements

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; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

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 financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 financial statements such as records, documentation and other matters, including minutes of Executive Board, Resources Board and Council and other 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.

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 financial statements may be materially misstated as a result of fraud.

I have disclosed to you 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 financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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 financial statements.

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 financial statements.

Related party transactions

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

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.

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 the Authority has 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 financial statements, 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 financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

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 for 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.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2011, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2011 have been properly valued and that valuation incorporated into the financial statements.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific

courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Going Concern

An assessment has been made of the financial health of the Authority for a period of at least one year from the approval of the financial statements.

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 financial statements.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

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 financial statements.

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.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

Using the work of experts

I agree with the findings of both our valuer and the pension fund actuary, experts in evaluating the value of our non-current assets and pension fund liabilities respectively and 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.

As minuted by the Executive Board at its meeting on 13 September 2011

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Deputy Chief Executive

For and on behalf of North Warwickshire Borough Council

Date

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