Huntingdonshire District Council

Audit of Accounts 2008/09.

Annual report to those Charged with Governance 2008/09

September 2009

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Appendices

1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Corporate Governance Panel of Huntingdonshire District Council ('the Authority'). The purpose of this report is to highlight the key issues arising from the audit of the Authority's statement of accounts for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Corporate Governance Panel.

The Authority is responsible for the preparation of a statement of accounts which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's statement of accounts represents a "presents fairly" view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') we are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in this report.

1.2 Status of audit

We were presented with the draft statement of accounts on 17 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

At the time of writing this report the audit of the Cambridgeshire County Council Pension Scheme is yet to be completed by Pricewaterhouse Coopers UK LLP. This may impact upon the Authority's pension liability and disclosures in the accounts.

1.3 Overall conclusions

There were a number of significant adjustments identified during our audit, mainly resulting from the revaluation of the Council's land and property assets. Details of the adjustments are included in section 2 of this report.

The key highlights from the audit are:

- The Council undertook a full revaluation of its land and property assets as at 1 April 2009. It was agreed with the Council that because of the timing of the

revaluation that these values be incorporated into the Statement of Accounts as closing balances as at 31 March 2009. The revaluation resulted in the Council reporting revaluation gains totalling £7.6m and impairment losses of £20m which included £12.1m in respect of the demolition of Pathfinder House and the construction of new office building. Audit procedures identified a number of adjustments in respect of these transactions which resulted in an increase in the reported net costs of services and reported deficit for the year of £489k.
- The Council had netted off a NNDR creditor of £1,191k against its NNDR debtors. These balances should not have been netted off against each other and appropriate adjustments have been made to NNDR debtors, Receipts in Advance and Other Creditors in respect of this amount.
- The Council had included a debtor of £420k which had been received prior to the year-end. The amount had also been included twice as a receipt in advance. An adjustment has been made to both debtors and receipts in advance in respect of this sum.
- A number of disclosure amendments were identified in the financial instruments disclosure.

Only the adjustments required as a result of the revaluation of fixed assets had an impact on the Income and Expenditure account deficit. There was no impact on the General Fund balance as charges arising from impairments are not credited to this balance so as not to impact on the level of Council Tax.

The quality of the working papers provided by the Authority has improved from those provided in the prior period; however, there is scope for further improvement and we will continue to work with the Authority to achieve improvements.

Statement of accounts opinion

We anticipate providing an unqualified opinion on the Authority's statement of accounts, prior to the statutory deadline of 30 September 2009.

Value for Money conclusion

In providing our opinion on the statement of accounts, we are required to reach a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources ('the Value for Money conclusion').

Our Value for Money conclusion is informed by our work on Use of Resources. In order for us to provide an unqualified conclusion, the Authority needs to achieve a score of at least 2 for each Key Line of Enquiry ('KLOE'). We are pleased to report that the Authority has met the requirements for all the scored KLOE. This is a good achievement given the new Use of Resources assessment in 2008/09 represents a much harder test.

We anticipate providing an unqualified Value for Money conclusion.

Further information on the outcome of our Use of Resources audit is contained in Section Two.

1.4 Way forward

We will continue to work with the Authority to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2009.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Authority's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

1.5 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

8 September 2009

2 Detailed findings

2.1 Introduction

This section provides a summary of our findings arising from the audit of the statement of accounts, including matters arising from our evaluation of key controls and comment on the Authority's overall financial position.

2.2 Status of the audit

We carried out our audit in accordance with the audit plan presented to the Corporate Governance Panel in March 2008. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- review of the Council's Annual Governance Statement;
- review of the final version of the statement of accounts;
- review the assurances provided by the auditors of the Cambridgeshire County Council Pension Fund in respect of the pensions liability, associated reserve and disclosures included in the Authority's statement of accounts;
- obtaining and reviewing the Authority's letter of management representation; and
- updating our post balance sheet events review, to the date of signing the accounts.

2.3 Audit opinion

Statement of accounts Opinion

We expect to issue an unqualified audit opinion on the Authority's statement of accounts. This is subject to the approval of the statement of accounts by the Corporate Governance Panel on 22 September 2009 and completion of our finalisation procedures.

A number of issues arose during the course of the audit which should be considered by the Corporate Governance Panel. These are set out in sections 2.4 to 2.6 below.

Value for Money Conclusion

Our Value for Money conclusion is drawn from our work on UoR. In order for us to provide an unqualified conclusion, the Authority needs to achieve a score of at least 2 for each Key Line of Enquiry ('KLOE'). Our proposed assessment for the Authority is summarised overleaf. Please note that these scores are provisional and subject to national quality assurance processes.

Scoring scale:
1 - Below minimum requirements - inadequate performance
2 - Only at minimum requirements – adequate performance
3 - Consistently above minimum requirements – performing well
4 - Well above minimum requirements – performing strongly

Table 1: Provisional UoR scores

Theme	2009
1 Managing Finances	2
2 Governing the Business	2
3 Managing Other Resources	2

We would like to emphasise that the Authority has performed well to achieve scores of level 2, as this is a new assessment which represents a much harder test. We understand that 2 is the prevailing score nationally for district councils.

Based on the Use of Resources assessment above, we anticipate providing an unqualified value for Money conclusion.

The outcome of our Use of Resources audit will be reported in full in a separate report to be presented to the Corporate Governance Panel in December 2009.

2.4 Matters arising from the statement of accounts audit

Matters arising from the statement of accounts audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix B.

We are pleased to note that officers chose to undertake the full review of land and buildings and investment properties early in the 2009/10 financial year. Our audit experience in other sectors identified that land values had fallen by around 25% in the 2008/09 financial year. A number of adjustments were required as a result of the revaluation exercise. It is now important that the Council reviews the arrangements it has in place for the management of its fixed asset register to ensure that it is fit for purpose. With the introduction of the revaluation reserve and the requirement to maintain records of movements in the historical cost and revaluation gains and losses of assets, more detailed information needs to be kept. This will also be required through the introduction of International Financial Reporting Standards (IFRS) in 2010/11 and the requirement to account for assets on a component basis. The Council should ensure it has adequate systems in place to ensure that it can accurately record and report this information.

Our work on revenue recognition identified that in one instance, rental income of £1.4k due in respect of 2009/10 had been included as revenue in 2008/9 rather than as deferred income where not received. As a result of this we reviewed the details of all invoices raised in advance, established the Authority's process for reviewing these for inclusion in the Statement of Accounts and undertook an exercise to extrapolate a value for revenue that should have been disclosed as deferred income rather than recognised as 2008/09 revenue. The extrapolated value is £21k which is not considered to be significant and no adjustment has been proposed.

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any control issues presenting a material risk to the accuracy of the statement of accounts.

We have reviewed the work of Internal Audit and concluded that the scope and conduct of the testing was satisfactory and we were able o rely on internal audit in understanding key financial systems of the Authority. We have therefore taken assurance from the work of internal audit to support our responsibilities in documenting and understanding material systems used to prepare the statement of accounts. There were no significant issues that would impact on our planned audit strategy.

We performed a high level review of the general IT control environments as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

2.5 Adjusted misstatements

There were no misstatements identified by the management team during the course of the audit.

Our audit identified the following adjustments which have been processed by management:

- Revaluation gains:
  - £239k of revaluation gains had not been recognised in the accounts due to valuations for four assets not being processed.
  - £424k of revaluation gains had not been recognised in the accounts due to netting off against impairment losses for different components of the same assets.

  Total increased in revaluation gains not recognised in the draft statement of accounts: £663k
- Impairments:
  - £340k of impairment losses had not been recognised in the accounts due to valuations for four assets not being processed.
  - £424k of impairment losses had not been recognised in the accounts due to netting off against revaluation gains for different components of the same assets.
  - £275k reduction in the amount of impairment charged to the income and expenditure account in respect of revaluation gains held in respect of impaired assets in the revaluation reserve

  Total increase in impairment charged to the income and expenditure account: £489k.
- Revaluation Reserve: £355k increase in balance of revaluation reserves relating to addition of revaluation gains noted above (£653k) less reduction of £308k in respect of impairment charges for previously recognised revaluation gains on assets.

- NNDR Debtors - £916k increase to reflect value of NNDR debtors (less bad debt provision of £275k) which had been netted off against NNDR creditors.
- Other Creditors - £275k decrease to reflect movement of NNDR creditors to Receipts in Advance relating to a payment of £1,191k received in respect of a 2009/10 NNDR liability.
- Receipts in Advance - £1,191 increase to reflect a payment received in respect of a 2009/10 NNDR liability. £275k previously disclosed as an "other creditor" with £916k having been netted off against NNDR debtors.
- General Debtors - £420k decrease in respect of an invoice paid in full prior to 31 March 2009
- Receipts in Advance - £420k decrease in respect of an invoice included twice in the balance.

The aggregate of these adjustments has increased the Income and Expenditure account deficit by £489k with no impact on General Fund balances. Whilst the adjustment is not material to the accounts, it is considered to be significant.

2.6 Unadjusted misstatements

There was one unadjusted error. Where a revaluation gain is held for an asset, an adjustment in respect of the difference of the depreciation charge based on historic cost depreciation and carrying value depreciation should be made to the revaluation reserve and to the Capital Adjustment Account. This adjustment was required in respect of one asset that had been revalued in 2007/8 for an amount of £1k. This amount is clearly inconsequential in respect of the 2008/09 financial statements; however, as noted in section 2.4 above, following the revaluation exercise the figure is likely to be of significance in future reporting periods and the Authority should ensure that it has adequate systems in place to calculate this adjustment on an asset by asset basis.

2.7 Financial performance

The Authority has reported a deficit on the Income and Expenditure account of £26,853,000 (2007/08 £10,305,000). The main reason for the increase in this deficit is the recognition of impairments on the value of land, buildings and investment properties following the full revaluation that took place as at 1 April 2009. Land values in particular have fallen in all sectors due to the economic downturn. There is no impact on General Fund balances as impairments are reversed out through the Capital Adjustment Account.

The Authority under spent against the budget by £470,000. Included within this under spend are a number of positive and negative variances against the budget, the most significant of which are included in the table below:

Table 2: Most significant variances against budget

Budget area	Performance against budget
Investment income	£318k favourable
Leisure Centres	£476k favourable
Other grants (including LABGI)	£199k favourable
Public Transport including concessionary bus fares	£159k adverse
Income from land charges	£303k adverse
Car Parks	£168k adverse

The Authority did not have any investments in Icelandic banks at the time of collapse of these banks. Officers continue to closely monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in to minimise the risk of losses, whilst securing competitive returns. In 2008/09 the Authority reviewed its treasury management arrangements in response to the Audit Commission report on Icelandic investments. The Audit Commission has required us to complete a review of Treasury Management arrangements at the Authority and we are due to report back to the Audit Commission on our findings in October 2009. There are no significant issues which we wish to bring to your attention at this time.

2.8 Annual Governance Statement ('AGS')

We have examined the Authority's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Authority. Our audit has not identified any proposed adjustments.

The Audit Commission has requested that all auditors of local Authorities review the policies and arrangements for members' allowances and expenses. Should we identify any significant issues we will report these to the Corporate Governance Panel.

The Authority has reflected on arrangements in place to manage risks in respect of treasury management and members' allowances in the AGS. The Authority has also noted actions to improve the effectiveness of the Corporate Governance Panel, the HR function, governance and ethical arrangements as well as ensuring that the current and future financial position is monitored.

2.9 Next Steps

The Corporate Governance Panel is required to approve the annual accounts of the Authority for the year ended 2008/09.

Finally, we would like to draw to the attention of those charged with governance further significant changes that will happen to the statement of accounts in future years. The most significant of which is the full implementation of International Financial Reporting Standards ("IFRS") in 2010/11. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees, than those who are not well prepared. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation every 5 years • We comply with the Auditing Practices Board's Ethical Standards.

Area	Key Messages
Audit Approach	Our approach to the audit was set out in our 2008/09 audit plan and our audit strategy document for the year ending 31 March 2009. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: • We consider the materiality of items in the statement of accounts in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Authority for final accounts audit purposes. • In 2008/09 we have been able to place reliance on the work of internal audit in respect of understanding and documenting key accounting systems.
Accounting Policies	We consider that the Authority has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the 2008 local government Statement of Recommended Practice. The Corporate Governance Panel should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Authority's financial plans and consider it appropriate to account on a going concern basis.
Material Risks	We have requested from the Authority a letter of management representations, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the statement of accounts. We will also perform our own audit procedures to ensure that all significant risks and exposures to the Authority have been recognised in the accounts as at the date of the audit report.

Area	Key Messages
Audit Adjustments	Details of all significant adjustments made to the accounts arising from the audit process, which have been processed and agreed with the Director of Internal Services, are set out in 2.5 of this report. The overall effect of the misstatements identified above is to increase the deficit on the income and expenditure account by £489k without any impact on the General Fund balances.
Unadjusted Errors	One unadjusted error was identified - refer to section 2.6 of this report.
Other Matters	There was one control issue noted as a result of our audit. This is detailed in the action plan at Appendix B along with suggestions for future actions on fixed asset accounting under IFRS.

B Action Plan: Accounts Audit

The following table presents a list of recommendations which require action on the part of the Authority. These relate to weaknesses in the systems of financial control and other issues associated with the accounts process.

Issue Noted	Priority	Recommendation	Management Response	Officer Responsible	Implementation Date
Fixed assets under IFRS Accounting for fixed assets will be significantly different under IFRS from 2010/11.	High	The Council should review the arrangements it has in place for the management of its fixed asset register to ensure that it is fit for purpose for IFRS.	Agreed	Accountancy Manager	December 09
Valuations under IFRS The accounting requirements and valuation methods for fixed assets will change significantly under International Financial Reporting Standards from 2010/11.	High	The Authority should ensure that it has appropriate arrangements in place to meet the valuation requirements for fixed assets under International Financial Reporting Standards which will apply from 2010/11.	Agreed	Accountancy Manager	December 09

Issue Noted	Priority	Recommendation	Management Response	Officer Responsible	Implementation Date
Journal Entry Controls We note that there is no authorisation or review process in place at the Council in respect of journals which can be posted by all accountancy staff. There is therefore an increased risk of errors or other misstatement arising from journal processing.	Medium	All journal entries should be reviewed and signed off by an independent officer prior to processing.	Last year our response was that: ***Consideration will be given to whether there are any particular types of journals (e.g. significant impact on the final accounts) that should be checked or subsequently reviewed.*** It was subsequently agreed that, those journals that would have an impact on the bottom line would be reviewed and this took place. No errors were found but it is intended to continue this, at least for another year. Of the errors this year at least one might have been avoided by a review of items significantly affecting the balance sheet and so consideration will be given to whether this can also be fitted into the close-down programme for this year's accounts.	Accountancy Manager	Finalisation of close-down programme by February 2010.

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