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Government and Public Sector

Huntingdonshire District Council

Annual Audit Letter

2010/11 Audit

November 2012

Corporate Governance Panel
Huntingdonshire District Council
Pathfinder House
St Mary's Street
Huntingdon
PE29 3TN

November 2012

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit.

Yours faithfully

PricewaterhouseCoopers LLP

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

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

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Huntingdonshire District Council that is accessible for the Authority and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2010/11 Statement of Accounts, incorporating the value for money conclusion; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

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

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

As auditors we are responsible for:

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

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2011, though due to a number of issues, which are discussed in this report we were only able to complete our Audit in July 2012.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 13 July 2012.

We have summarised below the most significant findings from our audit. Further details of the issues identified can be found in our ISA260 Report to Those Charged with Governance of July 2012.

Preparation of IFRS based financial statements

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the "Code") requires that the Council's accounts be produced in accordance with International Financial Reporting Standards (IFRS). 2010/11 was the first year in which the Council was required to produce IFRS compliant accounts with two prior year comparative information as well. This is one of the most fundamental changes to financial reporting that impacts on Local Government accounting in recent memory.

Following our appointment as external auditors we performed early audit work in February and March 2011 on the restatement of the prior year comparative information. At that time the evidence available to support the Council's work to date on the IFRS conversion was not sufficient to enable us to carry out detailed audit procedures. We provided an assessment focussing on the key areas of the conversion and discussed this with Management in April 2011 who continued to work on the transition process.

We continued our work on the IFRS restatement as part of our 2010/11 final audit, starting in July 2011. The Head of Financial Services has reported to the Corporate Governance Panel (CGP) the reasons for the delays in completing the audit on a number of occasions, including:

1. The illness of the Capital Accountant and his subsequent retirement in September Led to difficulties in accounting for the Authority's fixed assets.

2. Difficulties for other staff in following the work completed by the Capital Accountant and thus taking longer than expected to make adjustments to the financial statements.

3. The Authority underestimated the time and complexity of IFRS transition.

4. The Authority's view that the appointment of new auditors at the same time as the introduction of IFRS was a contributing factor in the delay.

Although they Council encountered significant difficulty in finalising the figures included in the financial statements the disclosures have remained appropriate with no significant omissions being noted in subsequent drafts to version one.

Leases

IFRS contains more judgement in the determination of a lease as either operating or finance leases. The documentation to support the Authority's assessment was not sufficiently robust to enable us to have reasonable assurance that the financial statements were not materially misstated. We requested that management revisited their leases classification and completed the required assessment against the Code criteria, providing evidence to support their assumptions.

Following additional work by management and consultation with our valuation experts the correct accounting treatment was adopted by the Authority.

Capital Accounting

In performing our audit work on capital accounting we encountered significant issues which caused delays in the preparation and finalisation of the financial statements. The final version provided to us in July 2012 gave us reasonable assurance that the balances associated with property, plant and equipment are not materially misstated. We have included the most significant issues below:

Depreciation/Amortisation - Our review of depreciation and amortisation identified that the Council did not maintain a schedule detailing the useful economic lives for each asset on the fixed asset register, nor was there an annual review for appropriateness or asset existence/impairment. We therefore recommended that management should perform a review of UELs at each balance sheet date to ensure all assets are being appropriately depreciated. This should also be performed in conjunction with an annual existence and impairment review.

Classification of non-current assets - Our review of the classification of non-current assets identified that assets had been incorrectly classified between property, plant and equipment, intangibles and investment property. All significant misclassifications have been corrected within the financial statements, however the Council should monitor whether properties throughout the course of the year change in classification as this directly impacts the recognition and subsequent measurement of such assets.

Revaluations and impairments - Our review of the financial statements identified that the Council had not undertaken appropriate accounting entries on the revaluation of assets. We should note that the overall valuation of the Council's property, plant and equipment was not materially misstated. We performed testing on the final revaluation adjustments and did not identify any material misstatement.

Investment Properties - The Code of practice on Local Authority Accounting requires the use of the fair value model for investment properties. The fair value must reflect market conditions at the balance sheet date and thus annual revaluations are necessary unless the Council can demonstrate that the carrying value is not materially different from the fair value at that date. We identified that the Council has not undertaken an exercise to determine the fair value at the balance sheet date at 31 March 2010 or 31 March 2011. Management has subsequently undertaken this exercise using current market trends. We have confirmed that these are appropriate through consultation with our internal valuation experts. We recommend that management ensures this exercise is undertaken by a professionally qualified individual on an annual basis.

Leisure Centres - Our review of leases identified that the five leisure centres included on the Council's balance sheet are held under management agreements. These agreements indicate that the assets are jointly controlled assets between the Council and Cambridgeshire County Council.

We discussed the treatment of accounting for jointly controlled assets with management in August 2011. Management determined the required percentage shares for the calculation of the proportion of the assets the Council are required to exclude from their financial statements at the balance sheet date based on the capital contributions by both the Council and the County for 1 April 2009, 31 March 2010 and 31 March 2011. We confirmed the capital contributions feeding into this calculation by reference to management accounting showing capital contributions over the period. We reviewed the calculation sheet provided by management and did not find any errors.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether 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 was based on two criteria:

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

The Audit Commission's guidance requires auditors to report by exception on any significant additional matters that come to our attention which we consider to be relevant to proper arrangements to secure economy efficiency and effectiveness in the use of resources.

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.

We have set out in the preceding sections the details of the delays encountered in the accounts production process which has resulted in the Council not being able to produce a robust set of financial statements in accordance with the statutory timetable. We have therefore included the following in our Value for money opinion.

Basis for qualified conclusion

In considering the Authority's arrangements for securing financial resilience, we identified that the Authority has significant weaknesses in ensuring reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people as it has not been able to produce a set of financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting to the statutory timetable.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, except for the matter reported in the 'Basis for qualified conclusion' above we are satisfied that, in all significant respects, Huntingdonshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE '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 have discussed the delay in the production of the financial statements with management and confirmed that the final version of the AGS includes suitable references to the delay.