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Government and Public Sector

Huntingdonshire District Council

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

September 2012

2011/12 Audit

pwc

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

18 October 2012

Dear Members

This report updates our ISA 260 report which you considered at your meeting on 25 September 2012. The purpose of this report is as described in our earlier report.

The updates to our report are highlighted in **bold blue** type in the pages that follow.

We thank the management and staff of the Council for their co-operation and assistance during the course of our work.

Yours faithfully

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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 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

Executive summary

The purpose of this report

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Huntingdonshire District Council ('the Authority'). As agreed with you, we consider that "those charged with governance", at the Authority, are the Corporate Governance Panel.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you in June 2012. An audit of 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. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 1 to this letter.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work and which are included within this report:

- Preparation of the financial statements, including the quality of working papers provided to audit – We are pleased to report that the Authority has made good progress in preparing a set of financial statements that are compliant with IFRS and the Code. Whilst noting the real improvements made this year by the Authority, we have continued to experience some difficulties when reviewing the Authority's working papers which support the transactions included in the financial statements. As a result we have encountered delays and incurred additional time in auditing some areas of the accounts. Management has recognised the need for further development and review in advance of the preparation of the 2012/13 financial statement and as result we will discuss with management some recommendations to develop further their reporting arrangements in future years.

- Capital accounting – With the introduction of IFRS in 2010/11, this was the area of the accounts that created the most significant accounting challenges for the Council in 2010/11. We again note there have been improvements in the Authority's maintenance of capital accounting records and the accounting for associated transactions, but we have continued to identify weaknesses in some of the Authority's processes for capital accounting. We will again raise recommendations for management to develop further in this area.

Further details of the above matters have been included in the *"significant audit and accounting matters"* section starting on page 12.

We **discussed** the matters contained within this letter with the Corporate Governance Panel on 25 September 2012.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its 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 Authority throughout our work.

Audit approach

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

●	*Significant*	Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
●	*Elevated*	Although not considered significant, the nature of the balance/area requires specific consideration.
●	*Normal*	We perform standard audit procedures to address normal risks in all other material financial statement line items.

Financial Statements risks

Risk	Significant / elevated risk	Reason for risk identification	Audit approach and results
Management override of controls	● **Significant**	The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisation's policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud. Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as accruals, as significant fraud risks.	We have performed procedures to: • Understand and evaluate controls relating to income and expenditure recognition. • Consider the accounting policies adopted by the Authority, considering any changes in policy in the year with professional scepticism, and subjecting income and expenditure to the appropriate level of testing to identify any material misstatement. • Carry out cut off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year. • Test expenditure invoices to ensure they have been correctly classified in the financial statements as either revenue or capital expenditure. • Test the appropriateness of journal entries, focusing on a risk basis on journals affecting the reported outturn for the year. • Review accounting estimates for bias and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud.

			• Evaluate the business rationale underlying significant transactions. • Carry out the required certification work in respect of the Housing and Council Tax Benefit Subsidy for the year. • Incorporate an element of 'unpredictability' into our procedures. We also used our work on income and expenditure recognition set out below to help address the risk of material misstatement caused by management override of controls. The results of our audit procedures did not identify any significant control deficiencies or material misstatements, or evidence of material management bias in reporting. We do however note that currently journals are not subject to formal review and authorisation by a suitable member of the finance department. We recommend that management review the process for journal authorisation and consider whether adequate procedures are in place to provide assurances that journals made to the ledger are correct and appropriate, particularly those journals deemed to be higher risk. Our work on the Authority's significant accounting estimates has been summarised in the significant audit and accounting issues section of this report on page 15. At the date of writing this report we are in the process of finalising our review procedures, and will therefore provide the panel with a verbal update on 25 September 2012 of any subsequent findings where relevant. **All review procedures have now been completed and there are no further matters to report in this regard other than noted throughout this report.**

Recognition of income and expenditure	● **Significant**	We consider the risk of material misstatement in relation to revenue recognition, and because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position. Due to their nature, we do not consider the receipt of council tax, national non domestic rates, financing income or revenue support grant to be a significant risk and these income streams are therefore excluded from this category. The Authority is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.	We have performed the following procedures: • We have obtained an understanding of the controls over the key revenue and expenditure streams. • We have evaluated and tested the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. • We have also performed detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk, including carrying out cut-off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year. • We have carried out certification of government grants in accordance with the Audit Commission's requirements, including the Housing and Council Tax Benefits return. This work is currently underway The results of our audit procedures have not identified any significant control deficiencies or material misstatement. Our work on the Authority's significant accounting estimates has been summarised in the significant audit and accounting issues section of this report on page 15. Our work on management override of controls, including our review of journals has been summarised above. At the date of writing this report we are in the process of finalising our review procedures, and will therefore provide the panel with a verbal update on 25 September 2012 of any subsequent findings where relevant. **All review procedures have now been completed and there are no**

			matters that we wish to bring to your attention in relation to the recognition of income and expenditure.
Property, Plant and Equipment	● **Significant**	The accounting for property, plant and equipment is complex and can often result is various aspects of the financial statements being misstated due to the entries required under capital accounting. In the 2010/11 "Report to Those Charged with Governance (ISA 260 (UK&I))", we reported that several issues had been identified regarding the accounting for property valuations and depreciation/ amortisation of property plant and equipment: **Valuations** Accounting entries for revaluations and impairments were not correctly accounted for. There is therefore a risk that the carrying values in the financial statements may be materially misstated. **Depreciation/Amortisation** We have identified several issues in relation to depreciation/ amortisation including: • Inconsistent use of useful economic lives; • Inconsistent application of depreciation/amortisation policy to additions and disposals; and • Incorrect calculation of the difference in historic cost depreciation and carrying value depreciation for revalued assets. There is therefore a risk that these reserves and the depreciation charges in the comprehensive income and expenditure statement may be materially misstated.	We have performed the following procedures: • We have understood and evaluated the processes the Authority has put in place regarding accounting for property valuations and depreciation. In doing so we have considered how the Authority has responded to the issues in 2010/11 to assess the risk that these don't recur in the 2011/12 financial statements. • We have tested the accounting entries made in relation to revaluations and impairments. • We have audited the Authority's approach to the application of depreciation in the 2011/12 accounts to assess whether a consistent approach has been taken and tested the calculation of depreciation applied in the accounts. Our audit procedures did not identify any material misstatement, however we have identified several issues with the processes currently adopted by the Authority including: • Adequate instructions to the external valuer on properties to be reviewed for the financial year; • Maintaining a rolling programme of revaluation to ensure all assets are covered over an appropriate period; • Ensuring all assets of a category of assets are revalued in the same year in accordance with the Code of Practice and IFRS requirements; • Periodic review for physical verification of assets; • Annual impairment review for all categories of assets; and • Annual review of useful economic lives. The results of our procedures and key outstanding matters have been

			detailed in the significant audit and accounting issues section of this report on page 12.
Code Changes and IFRS	● **Elevated**	In 2010/11 the Authority struggled to meet the requirements of IFRS in producing its originally submitted 2010/11 financial statements. As a result of the failings in the Authority's financial accounting arrangements the quality of the financial statements produced and presented to us for audit were poor. As a result of the significant issues encountered in obtaining sufficient reliable supporting information from the Authority the audit of 2011/12 was significantly delayed. Management have sought to strengthen the financial accounting arrangements at the Authority and brought in additional resource to assist with producing the financial statements.	We have performed the following procedures: • Prior to commencing our final audit, the Managing Director Resources signed the draft 2011/12 financial statements, as required, and confirmed to us that he was happy with the quality of the draft accounts and that all the supporting documentation and evidence was complete and accurate for our review. • We have undertaken a detailed review of the disclosures and format of the financial statements to ensure that they comply with the disclosure requirements of the Code. Our audit of the financial statements has identified that the Authority has made good progress in the preparation of the financial statements in comparison to the prior year. We do however note that during the course of the audit we have continued to encounter some difficulties in the standard of working papers which support the figures included in the financial statements and would recommend that the Authority continues to develop procedures and working papers to assist in the preparation and audit of the financial statements. Further information has been provided on page 13.

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- Review of the adequacy of the Authority's impairment for doubtful debt; **We have now completed our audit work in this area. Our findings have been summarised in the judgements and accounting estimates section of this report on page 16.**
- Response from the Authority's external valuer in relation to the circumstances surrounding two items revalued during the financial year; **We have now completed our audit work in this area. Our findings have been summarised in the judgements and accounting estimates section of this report on page 15.**
- Final review by our internal PwC valuation expert on the work of the Authority's valuer; **We have now completed our audit work in this area. Our findings have been summarised in the judgements and accounting estimates section of this report on page 15.**
- Receipt of the Authority's work on the physical verification of infrastructure and intangible assets; **We have now completed our audit work in this area.**
- We have completed our initial review of the Authority's related party transactions disclosure within the financial statements and have raised some queries which management are reviewing. We should note that if the results of this work identify any omissions in the disclosure then we will be required under ISAs to report this as a significant weakness to the Corporate Governance Panel; **We have now completed our audit work in this area. We identified some related party transactions that had not originally been disclosed to us or included in the financial statements. We have carried out our required audit work on these new items and have no concerns to raise regarding the transactions themselves, and they have now been properly included in the final accounts. Identification and approval of related party transactions is an important area of control, and as such we have recommended that management review their procedures in this area for future years.**
- Receipt of minor outstanding items relating to income, debtors and grant conditions; **We have now completed our audit work in this area.**
- Final review of the movement in reserves statement; **We have now completed our audit work in this area.**
- Review of the cash flow statement and corresponding notes; **We have now completed our audit work in this area.**
- Review of some of the disclosure notes included throughout the financial statements; **We have now completed our audit work in this area.**
- Internal quality review procedures, including partner and manager review; **We have now completed our audit work in this area.**

- Receipt and review of a final set of the Statement of Accounts and Annual Governance Statement incorporating all adjustments; **We have now completed our audit work in this area.**

- Approval of the financial statements and letters of representation; and

- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion. Due to the number of outstanding matters we note that there is a risk to the achievement of the submission deadline of 28 September and we envisage finalisation taking place in early October.

As part of our work on the Statement of Accounts we are also required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view whether they are consistent with the Statement of Accounts. The submission deadline for this work is 5 October 2012, one week later than the deadline for the financial statements. At the time of writing this report our work on this is in progress. **We have now completed our audit work in this area. Our initial review of the WGA for 2011/12 identified some internal inconsistencies within the Property, Plant and Equipment schedule. Management have subsequently updated this and the WGA consistency schedule will be signed alongside the financial statements.**

Accounting issues

We are required to report to you our view on significant qualitative aspects of the Authority's accounting practices, including its accounting policies, accounting estimates and financial statement disclosures. We identified the following matters during the course of our audit work:

Preparation of the financial statements

In 2010/11 the Authority struggled to meet the requirements of IFRS in producing its originally submitted 2010/11 financial statements. As a result of the failings in the Authority's financial accounting arrangements the quality of the financial statements produced and presented to us for audit were poor.

We are pleased to report that the Authority has made good progress in preparing a set of draft financial statements suitable for audit in 2011/12, which, given the difficulties encountered in 2010/11, is an achievement. We are also pleased to note that the audit adjustments arising from our procedures on the financial statements have been limited and all items identified have been immaterial and adjusted by management.

We have however continued to encounter some lower level difficulties with obtaining adequate working papers which support the figures included in the financial statements, which has led to some delays and additional work by both management and ourselves.

During our review of the financial statements we identified a difference between the trial balance and the amount disclosed within the financial statements of £82k. Management have been investigating the difference and consider that this is due to using two different types of reports during the accounts preparation process; however the correcting adjustments for the difference have not been identified. As the amount is not material to the financial statements we have noted this for information only and recommend that management continue to review the process for preparing the financial statements and ensure that only one, reliable source of information is used as a base for collating the financial statements.

We understand that the new accountancy manager has already identified a number of areas for improvement and will be undertaking a full review of the financial statements and working papers in advance of the 2012/13 closedown process to ensure that these are fit for purpose.

Capital Accounting

In the 2010/11 "Report to Those Charged with Governance (ISA 260 (UK&I))", we reported that several issues had been identified regarding the accounting for property valuations and depreciation/ amortisation of property plant and equipment and as such we included this as a significant risk in our audit plan for 2011/12 as set out on page 9.

We have performed audit procedures to ensure that the financial statements are free from material misstatement, and have noted real improvements in 2011/12. Although we acknowledge the progress management has made in advancing the maintenance of the Authority's capital accounting records we have however continued to identify some weaknesses in the processes currently adopted by management which we have summarised below.

Valuation of land and buildings and investment property

The Authority's accounting policy for land and building assets states that professional valuations will be obtained at least every five years and that in the intervening years there will be regard to the movement in property prices and any other factors that may indicate a significant difference between values in the financial statements and current values indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

In 2011/12 the Authority obtained updated valuations for assets where there had been significant expenditure incurred during the year and processed these adjustments in the financial statements. Whilst we are satisfied that the valuations associated with these assets are reasonable, management did not consider the IFRS requirement that all assets of a category (for example leisure centres) should also be considered for revaluation when one asset from that category is revalued.

In addition, for assets revalued by the Authority, management did not obtain from the external valuer a view on whether there was any material movement in the remainder of the portfolio until requested by the audit team.

We recommend that the Authority:

- Reviews their policy for the revaluation of property, plant and equipment and confirms that it is fit for purpose and maintains a rolling programme for the revaluation of assets that ensures that the financial statements are free from material misstatement;
- Provides adequate instructions to the external valuer about the properties it requires revaluations for, ensuring that all assets within a category are revalued and a request is made that the valuer performs work to ensure that the rest of the portfolio is not materially misstated. This should also be explicit of the need for the valuer to set out their methodology, key assumptions, independence and professional requirements; and
- Reviews the information received from the external valuer in detail and confirms that it complies with the instructions and is complete before processing within the financial statements.

Valuation of vehicles, plant and equipment

The Authority's accounting policy states that vehicles, plant and equipment are held at historic cost in accordance with the requirements of the Code and IFRS. Our audit procedures have identified that management have not performed an annual assessment to confirm if an impairment review is required.

We have also identified that the Authority does not a have formal process in place for the physical verification of assets. Without procedures in place to perform periodic reviews there is a risk that the Authority's balance sheet is overstated due to disposals within services not reported to finance (where they do not result in proceeds being received), or not identifying items no longer in use . Failing to conduct physical verifications also increases the risk of fraud through theft.

Following our audit procedures, management have completed a review of existence and impairment by asking budget holders to confirm that assets within their service department remain in use. At the time of writing this report our audit work is substantially complete, however we have recently received supporting evidence for £1.6 million of infrastructure assets which we are in the process of reviewing. In addition management are currently finalising the exercise for intangible assets, which once complete we will need to undertaken audit procedures on. We will provide the Corporate Governance Panel with a verbal update at the meeting on 25 September 2012. **We have now completed our audit work in this area. We have not identified any material misstatements as part of the procedures performed.**

Depreciation and amortisation

Our audit procedures on depreciation and amortisation identified that management do not perform an annual review of useful economic lives for continued appropriateness. Assets included in the report from the external valuer are assigned a remaining asset life, however for all other applicable property, plant and equipment and intangibles an assessment is not undertaken. There is therefore a risk that these reserves and the depreciation charges in the comprehensive income and expenditure statement may be materially misstated.

The Authority may wish to consider performing a combined exercise annually which covers physical verification, assessment of fair value/impairment and appropriateness of remaining asset life.

Other accounting issues

Heritage Assets

FRS 30, Heritage Assets is required for first time adoption in the 2011/12 Statement of Accounts. Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture. The Authority has undertaken an exercise to identify all actual and potential heritage assets and have included in their financial statements one asset at its insurance value of £65k. Following our audit procedures an additional £33k of assets has been identified, however due to their trivial nature and value no adjustment has been proposed for these within the financial statements. They have however been disclosed within the notes to the financial statements.

We have considered the adequacy and completeness of the assessment undertaken by management and have no matters that we wish to bring to your attention.

Valuation of inventories

Throughout the course of our audit we identified that management are valuing inventories using a methodology which is not in compliance with the Code (Last in first out). The value of stock is not material (2011/12: £185k) and as such we do not perceive there to be a risk of material misstatement. We do however recommend that management review this policy and ensure that in future periods stock is valued in accordance with the Code.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Corporate Governance Panel 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:

- ***Estimated economic useful lives of property, plant and equipment and intangible assets:*** Our audit work has not highlighted any material misstatement in relation to depreciation. We have however noted the following:

    - The Authority does not depreciate additions and enhancements in the year of acquisition. The Code specifies, "Where balances are relatively stable (i.e. no substantial acquisitions, disposals or movements in fair value in the year), an Authority might be able to justify a simpler approach, such as using opening balances. Thus, for most authorities, an acceptable hybrid approach will be the consistent use of either opening or closing balances, supported occasionally (but as necessary) by exceptional calculations based on weighted averages for major acquisitions or disposals taking place towards the start or end of the year". We confirmed through audit procedures that the impact of depreciating in the year of acquisition is not material to the financial statements. We recommend that management ensures that they continue to review the reasonableness of applying this policy on an annual basis.

- It has been noted through the audit work performed that management does not maintain an up to date schedule detailing the useful economic lives for each asset on the fixed asset register. Our review of asset lives did not identify any significant issues, however we have raised this with management for them to review in the future. We therefore recommended that management should perform an annual review of useful economic lives at each balance sheet date as required by IFRS and the Code to ensure all assets are being appropriately depreciated. This could also be performed in conjunction with an annual existence and impairment review.

- We have not identified any matters in relation to the componentisation of assets that we wish to bring to your attention.

- ***Calculation of pension fund assets and liability*:** Management has utilised the information provided from the actuary which is the fundamental basis of this estimation. We have performed additional work to ensure accurate disclosure within the Financial Statements, the fundamental assumptions are reasonable and the asset allocation is reasonable. We are satisfied that the estimation is reasonable within the Financial Statements.

- ***Valuation and impairment of property, plant and equipment*:** We have set out the Authority's processes for the valuation of property, plant and equipment on page 13, including detailing our predominant findings from our audit procedures.

  In accordance with its accounting policy, the Authority has revalued a small proportion of its PPE assets for 2011/12. For assets not valued during 2011/12, a review of fair values as at 1 April 2012 has resulted in no changes to property valuations being processed within the 2011/12 financial statements. In estimating the fair value to be included in the 2011/12 financial statements, management has utilised the expertise of an external valuer.

  In response to the requirements of the International Standards on Auditing, we have reviewed the methodology used by management and engaged our internal valuation team to:

  - Review the assumptions applied in forming the valuation in the 2011/12 financial statements;
  - Assess whether the valuation method is consistent with the Code requirements; and
  - Confirm that the external valuers have the appropriate qualifications for completing the valuations.

As set out on page 13 we identified that individual assets had been revalued during the year with no assessment being undertaken on the remaining assets in those categories, as is required by the Code and IFRS. We have understood the reasons for the revaluation of each asset and performed additional procedures to confirm that the remaining assets within those categories are not materially misstated. At the time of writing this report we are waiting on a response from the Authority's external valuer to provide some additional assurances over the valuation of two assets in particular, one being the St Ivo Leisure Centre, which will help conclude on this work.

We also note that we will need final review comments from our internal expert on the valuations performed by the Authority's external valuer, once this data has all been received.

We will provide the Corporate Governance Panel with a verbal update at the meeting on 25 September 2012. **We have now completed our audit work in this area. Our procedures provided us**

with sufficient assurances that the financial statements are free from material misstatement.

- ***Valuation and impairment of investment property*:** 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 Authority can demonstrate that the carrying value is not materially different from the fair value at that date.

  In estimating the fair value to be included in the 2011/12 financial statements, management has utilised the expertise of an external valuer.

  In response to the requirements of the International Standards on Auditing, we have reviewed the methodology used by management and engaged our internal valuation team to:

  - Review the assumptions applied in forming the valuation in the 2011/12 financial statements;
  - Assess whether the valuation method is consistent with the Code requirements; and
  - Confirm that the external valuers have the appropriate qualifications for completing the valuations.

  At the time of writing this report we are awaiting final review comments from our internal expert on the valuations performed by the Authority's external valuer. We will provide the Corporate Governance Panel with a verbal update at the meeting on 25 September 2012. **We have now completed our audit work in this area. Our procedures provided us with sufficient assurances that the financial statements are free from material misstatement.**

- ***Valuation and impairment of other non-current assets:*** Review of valuations and impairment work performed by the Authority and their valuers identified that non building/land assets have not been considered for impairment. This has been considered in respect of the useful lives assigned to the assets, to determine whether the lives used are appropriate to ensure impairment in this respect would not be required. We enquired of the Authority as to whether they had carried out any kind of review on these assets to confirm whether they were still in existence/still in working conditions and identified that no such review had been performed. As set out on page 14, at the time of writing this report management is in the process of undertaking an existence exercise in conjunction with budget holders to confirm that the financial statements are not materially misstated. We will provide the Corporate Governance Panel with a verbal update at the meeting on 25 September 2012. **We have now completed our audit work in this area. Our procedures provided us with sufficient assurances that the financial statements are free from material misstatement.**

- ***Provision for bad debts:*** The Authority has recognised a provision for bad debts within the financial statements against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances. At the time of writing this report our audit work is still in progress, however we have noted the following to date:
  - There is no documented policy for the impairment of accounts receivable. We recommend that this is documented and formally approved.
  - Whilst management have based their provision for housing debts on CIPFA guidance, there is limited evidence to support the level of provision on the remaining categories of aged debt. We recommend that management should review their basis for providing for bad debts, incorporating the results of past events, such as recovery and write off rates to support the level of provision included in the financial statements.
  - Our audit procedures have identified that there is more than £1 million of debt greater than 12 months old which has been provided for. At the time of writing this report we are in the process of analysing with management the movement in the provision to assess whether there is a significant proportion of the provision for which there has been no movement for a number of years and would therefore indicate the need to potentially write the debt off.

  We do however note that our work to date indicates that any adjustments to the financial statements proposed are likely to relate to the write off of existing debts fully provided for, and as such the impact would be to reduce debtors and the provision included in debtors note only within the financial statements.

We will provide the Corporate Governance Panel with a verbal update at the meeting on 25 September 2012. **We have now completed our audit work in this area. We have identified that there is potentially £827k of debt that is irrecoverable, with a large proportion of this debt being more than 5 years old. This debt is, however, correctly fully provided for in the financial statements.**

We note that much of the debt relates to housing benefit where in the majority of cases the debt is being repaid by instalments, sometimes over a very long time scale. There are still however a high proportion of debts for which there has been no or minimal movement.

We recommend that management undertake on a regular basis a review of their older debts and determine those which are potentially recoverable (albeit where it is appropriate to continue to provide for all or most of the balance in the accounts) and those which should be formally written off.

- ***Accruals and provisions:*** We have performed audit procedures over the balances the Authority is disclosing within the financial statements. Our work has not identified any significant estimates.

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 2.

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 communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Company, its directors and senior management and its affiliates ("the Group") that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the financial statements.

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 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 financial statements is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Corporate Governance Panel. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

We have provided no non-audit services to the Authority.

Fees

Our audit fees were reported to the Corporate Governance Panel in June 2012. On page 6 we set out that during the current financial year we have encountered difficulties with some of the working papers provided to support the financial statements. Where we have incurred additional time as a result of this we have discussed this with management and will have a separate discussion with the Head of Finance on additional fees.

Services to Directors and Senior Management

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

Rotation

The lead audit engagement partners are rotated on Audit Commission appointments at least every five years, as required by our own rules and by regulatory bodies. Rotation ensures a fresh look without sacrificing institutional knowledge. Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the lead audit engagement partner. This includes partners and staff involved in the audit of the Authority.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's board, 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 Corporate Governance Panel to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Accounting systems and systems of internal control

It is the responsibility of the Authority to develop and implement 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 financial statements and our review of the annual governance statement.

No significant matters concerning internal control processes operated by the Authority have arisen from our audit, other than as reported in this document, which we need to bring to your attention. Less significant matters will be summarised in a separate report for presentation to management and the Corporate Governance Panel in due course.

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 financial statements.

At the time of writing this report we are in the process of reviewing the AGS to consider whether it complies 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 will provide the Corporate Governance Panel with a verbal update on 25 September. **We have now completed our audit work in this area.**

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.

In accordance with guidance issued by the Audit Commission, in 2011/12 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.

As in 2010/11, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion and are in the process of concluding our work on this. Our review has not highlighted any significant matters that we wish to bring to your attention.

In 2010/11 the Authority's value for money opinion was qualified due to the delays encountered in the accounts production process which resulted in the Authority not being able to produce a robust set of financial statements in accordance with the statutory timetable. We are pleased to report that the Authority's progress in preparing the financial statements has meant that the value for money conclusion will not be qualified on these grounds in 2011/12.

Risk of fraud

We discussed with the Corporate Governance Panel their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan in June 2012.

In presenting this report to the Corporate Governance Panel we seek members' confirmation that there have been no changes to their 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.

Appendices

Audit reports issued in 2011/12

Audit plan	June 2012
Report on 2011/12 financial statements to those charged with governance (ISA 260)	September 2012
Audit report on the Statement of Accounts and Value for Money	Planned for September / early October 2012
Report to management on the Statement of Accounts audit	Planned for December 2012
Annual Audit Letter	Planned for December 2012
Grants certification report	Planned for March 2012

Letter of representation

[Authority Letterhead]

PricewaterhouseCoopers LLP
Abacus House,
Castle Park
Cambridge
CB3 0AN

Date – must be day of PwC signing or we will need additional representation by email on the day we sign.

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Huntingdonshire District Council (the "Authority") for the year ended 31 March 2012 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 2011/12 and the Service Reporting Code of Practice 2011/12.

My responsibilities as Managing Director of Resources 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 Huntingdonshire District 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 2011/12; 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.

Subsequent events

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 2011/12 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 the Council, Cabinet and Corporate Governance Panel 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.

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.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

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 2011/12.

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, including retirement benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the Authority participate.

All retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the Authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The actuarial assumptions underlying the valuation of retirement benefit scheme net liabilities as detailed within the pension fund section of the financial statements are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities.

The census data underlying the actuarial calculation is accurate and complete.

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.

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.

The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

I am not aware of any pending or threatened litigation, proceedings, hearings or claims negotiations which may result in significant loss to the Authority.

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.

Pension fund registered status

I confirm that the Cambridgeshire County Council Local Government Pension Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

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

Accounting estimates

The Authority has recognised the following accounting estimates in the financial statements:

- Provision for bad debts;
- Valuation of property, plant and equipment, intangibles and investment properties;
- Accounting for leisure centres;
- Component accounting;
- Classification of leases;
- Estimated useful economic lives of property, plant and equipment and intangible assets; and
- Calculation of the pension scheme assets and liabilities.

Regarding the above accounting estimates:

- 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.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Additional written representations about the Statement of Accounts

The selection and application of accounting policies are appropriate.

The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom:

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Using the work of experts

The Authority makes use of the following experts in preparing its financial statements:

- Barker Storey Matthews for the valuation of property, plant and equipment; and
- Hymans Robertson, actuary to the Local Government Pension Scheme;

I agree with the findings of the experts shown above in evaluating the valuation of properties and the pension scheme 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.

Assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in 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.

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.

Financial Instruments

Where we have assigned fair values to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss.

Transactions with members/officers

Except as disclosed in the financial statements, no transactions involving members, officers and others requiring disclosure in the financial statements under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom have been entered into.

Items specific to Local Government

The Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in the financial statements for which we should have made provision in the financial statements.

The Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.

The Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Corporate Governance Panel at its meeting on 25 September 2012

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Managing Director of Resources

For and on behalf of Huntingdonshire District Council

Date ....