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Huntingdonshire District Council

Report to those charged with governance

Report to the Corporate Governance Panel of the authority on the audit for the year ended 31 March 2013 *(ISA (UK&I)) 260)*

Government and Public Sector

26 September 2013

Contents

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.

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

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in March 2013; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

- We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Annual Financial Report by 30 September 2013.
- At the time of writing this report the key outstanding matters, where our work has commenced but is not yet finalised, are detailed on page 7.
- Key judgments and findings which require the Corporate Governance Panel's attention are set out commencing on page 7.
- We would draw the Panel's attention in particular to our findings on pages 18-19 related to our work on procurement and project management, as part of our work on Value for Money.

We will update this report and issue a final version once we have completed our work. Please note that the final version of 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.

We look forward to discussing our report with you on 26 September 2013. Attending the meeting from PwC will be Clive Everest and Hayley Clark.

Our audit is Smart: Smart People, Smart Approach and Smart Technology.

Audit approach

Smart People

We continue to deploy our best people on your audit, supported by a substantial investment in training and in our industry programme.

Your audit team has been drawn from our government and public sector team based in the South East. Continuity has been maintained in the current year at both engagement leader and manager level. In addition, many members of the on site audit team have been involved in the previous years' audits. Our audit has been further supported by our specialists both in the sector, and across other services such as property valuations and pension matters.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013 our audit work included testing manual journals through data analytics, so we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

We will also continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the Annual Financial Report.

Benefits for the audit

The key benefits of our approach for your audit have been

- Use of automated approaches to assess the audit risks arising from manual journals;
- Use of auditors' experts to assess the valuation of property, plant and equipment;
- Proactive discussions about accounting treatment for complex and material items; and
- Use of a dedicated accounts review team to assess compliance of your Annual Financial Report against the CIPFA Code of Practice.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.

Our risk assessment remains the same as the audit plan we presented to you in March 2013. We have summarised our response to those risks for your audit.

Risk Assessment

We have summarised below the significant and elevated risks we identified in our audit plan and the audit approach we took to address them.

Risk	Categorisation	Audit approach
Fraud and management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the Annual Financial Report. 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 2012/13 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 have considered the manipulation of financial results through the use of journals and management estimates, such as accruals, as significant fraud risks.	Significant	We have: • understood and evaluated relevant controls relating to the significant risk; • considered 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; • carried out cut off testing on expenditure at the year end to ensure that expenditure has been recorded in the correct financial year; • tested expenditure invoices to ensure they have been correctly classified in the Annual Financial Report as either revenue or capital expenditure; • utilised computer assisted audit techniques to test the appropriateness of journal entries, focusing on a risk basis on journals affecting the reported outturn for the year; • reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluated the business rationale underlying significant transactions and considered the related accounting for compliance with the Code of Practice; • 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; and • performed 'unpredictable' audit procedures – these are tests we may not have carried out before and are designed to give us comfort in areas where management may not normally expect us to test. ***Details on accounting issues are included on pages 7-9, whilst our findings on judgements***

Risk	Categorisation	Audit approach
		and accounting estimates are given on pages 10-12. We have detailed significant findings in relation to contracting and procurement as part of our report to you on value for money on pages 14-19. These have not however impacted upon our opinion on the truth and fairness of the accounts.
Fraud in recognition of income and expenditure Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. 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 therefore extend this presumption to the risk of fraud in the recognition of expenditure in Local Government. 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, or revenue support grant to be at significant risk of manipulation and these income streams are therefore excluded in our work around this risk. In addition we do not perceive there to be a risk of fraudulent material misstatement associated with payroll expenditure.	Significant	We have: • obtained an understanding of the controls over the key revenue and expenditure streams; • 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; • 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; • tested the appropriateness of journal entries affecting net expenditure on a risk basis, and have reviewed material accounting estimates for income and expenditure, (for example provisions and impairments) for any evidence of bias; and • evaluated the business rationale underlying significant transactions and considered the related accounting for compliance with the Code of Practice. ***We found no significant matters to report to you in this context. Details on accounting issues are included on pages 7-9 whilst our findings on judgements and accounting estimates are given on pages 10-12.***
Valuation of non-current assets Non-current assets including Property, plant and equipment (PPE) and investment properties represent the largest balance in the Authority's balance sheet. Economic conditions continue to be uncertain, which has a potential impact upon the	Elevated	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 performed work to consider how the Authority has responded to the issues in 2011/12, to assess the risk that these may recur in the 2012/13 Annual

Risk	Categorisation	Audit approach
valuation of these assets. The Authority measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates. Specific areas of risk include: • The accuracy and completeness of detailed information on assets. • Whether the Authority's assumptions underlying the classification of properties are appropriate. • Whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value. • The valuer's methodology, assumptions and underlying data, and our access to these. In our 2011/12 report to those charged with governance we reported the following issues with the processes then adopted by the Authority, including: • Instructions to the external valuer on properties needed to be reviewed for the 2012/13 financial year to ensure they met the requirements of the Code; • The need to Maintain a rolling programme of revaluations to ensure all assets are covered over an appropriate period; • Ensuring all assets within a category of assets are revalued in the same year, in accordance with the Code of Practice and IFRS requirements; • Performing a periodic review for physical verification of assets; • Conducting an annual impairment review for all categories of assets; and • Performing an annual review of useful economic lives.		Financial Report. With regards to asset valuations we have: • assessed the work of your Valuer through use of our own internal specialists where required; and • agreed the outputs from your Valuer through to your Fixed Asset Register and accounts. Where assets have not been re-valued in year, we have reviewed your impairment assessment, and evaluated whether your assets are held at an appropriate value in your accounts at the year-end. We have also reviewed the work performed by management to evidence that there have been no material upward changes to the carrying values. We have tested the accounting entries made in relation to revaluations and impairments. We have reviewed the Authority's procedures for the physical verification of assets and their annual review of useful economic lives. ***We found no significant matters to report to you in this context. Our findings on judgements and accounting estimates are given on pages 10-12.***

Risk	Categorisation	Audit approach
Provision for the impairment of doubtful debts In our 2011/12 report to those charged with governance we identified that the Authority recognised a provision for bad debts within the Annual Financial Report against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances. We noted: • There was no documented policy for the impairment of accounts receivable. • Whilst management based their provision for housing debts on CIPFA guidance, there was limited evidence to support the level of provision on the remaining categories of aged debt. • Our audit procedures identified more than £1 million of debt greater than 12 months old which had been provided for. Our initial discussions with management for 2012/13 identified that a review of the provision and the procedures in place for debt monitoring and recovery were currently in progress.	Elevated	We have: • discussed with management the progress made in updating and implementing procedures designed to monitor and recover debts, and performed additional audit work over the findings of this review; • • updated our understanding of management's estimation basis for 2012/13 and considered the impact on the current year provision and aged debt at the balance sheet date; • tested the provision calculated by management for accuracy and reasonableness for inclusion in the accounts; and • challenged management over their accounting for the reduction in the bad debt provision in 2012/13. ***We found no significant matters to report to you in this context. Our findings on judgements and accounting estimates are given on pages 10-12.***

Your significant audit and accounting issues relate to:

- ***Calculation and estimation of the net pension liability.***
- ***Judgements and accounting estimates.***

Significant audit and accounting matters

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

Accounts

In our report to the Corporate Governance Panel for 2011/12, and following the findings from our 2010/11 audit, we noted that there had been good progress in preparing a version of the Annual Financial Report suitable for audit but that we continued to encounter some lower level difficulties with obtaining adequate working papers which support the figures included in the Annual Financial Report.

We are pleased to report to there has again been significant improvement in the quality of working papers received in the current financial year. We are aware that the finance team has made a significant effort during the year to ensure that the Annual Financial Report and working papers were prepared to a standard suitable for audit.

At the time of writing this report we have completed our audit, subject to the following key outstanding matters:

- resolution of a technical consultation on a difference identified in relation to the calculation and estimation of the net pension liability (further information is provided on page 9);
- incorporation of certification work into our main audit documentation;
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- finalisation of additional sampling on leases;
- final review procedures including receipt and review of the final version of the Annual Financial Report and Annual Governance Statement;
- remaining queries in relation to our value for money work, as detailed on page 14;
- approval of the Annual Financial Report and letters of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters we expect to issue an unqualified audit opinion.

As part of our work on the Annual Financial Report we also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. Our work includes issuing an opinion stating in our view they are consistent or inconsistent with the Annual Financial Report. Due to the government delaying the issuing of the reporting templates this work is still underway at the time of writing this report and we will provide you with an oral update at the meeting on 26 September. It should be noted that the deadline for submission of the audited Whole of Government Accounts schedules is 4 October 2013.

Accounting issues

We have identified four matters during the course of our audit that we wish to draw to your attention:

1. Cut off treatment for housing and council tax benefit payments;
2. Treatment of trading operations;
3. Bank reconciliations; and
4. Pension liability.

1. Cut off treatment for housing and council tax benefit

Our cut off testing for payments pre and post year end identified that an adjustment is not made in relation to benefit payments which span the financial year end. This is on the basis that, for the accounts, the subsidy is calculated on what is paid in any given year, as opposed to the amounts payable in relation to the financial year. These figures are reconciled to the Annual Financial Report and form the figures in the income and expenditure account.

Review of the Code Guidance Notes has not identified any specific guidance on this matter. We have enquired with other Local Government auditors in the South East to assess the treatment adopted at other entities. This identified a mixed treatment; however the majority of authorities were accounting in the same way as the Authority and were not undertaking this adjustment.

As benefits expenditure is subject to government funding, if an adjustment was made to expenditure, this would also impact income and debtors as well (as there would need to be a similar amount of income, which would be expected to almost exactly equal to the extra expense). This precise amount would be difficult to quantify (as benefit subsidy claims include several minor adjustments from throughout the year) and therefore the assumption would have to be made that it would be identical.

Total benefit payments in April have been identified as being £2.3m in April 2012 and £2.3m in April 2013. As these payments occur in the middle of the month and relate substantially to the four weeks preceding that, a very crude assessment would be that 2 weeks expenditure is included in the incorrect financial year. This would equate to £1.2m in 2011/12 and £1.1m in 2012/13. Management have performed a more in depth review and identified the amount for 2012/13 to be in the region of £0.883m.

On the basis that there is no clear guidance, a variety of options are being used by Authorities, the amount is below materiality, any impact on the general fund would be trivial and the improvement of the information provided to the users of the accounts would be negligible, it has been deemed reasonable for the authority to continue to account on a paid basis. We have agreed this will be included as a critical accounting judgement in the Annual Financial Report which has already been amended by management.

We recommend that management monitor the value year on year and consider whether adjustments should be made in future years.

2. Treatment of trading operations

The draft Annual Financial Report included a reclassification in the prior and current year in the Comprehensive Income and Expenditure Statement for management's reassessment of trading operations. This saw income and expenditure relating to a number of services including leisure services and car parks being reclassified from net cost of services to operating activities within the surplus/deficit in provision of services.

Our view is that, whilst management's new assessment of what constitutes a trading activity is deemed reasonable ,the initial treatment within the draft Annual Financial Report did not conform with the Code guidance notes, which stipulate that income and expenditure associated with services provided under the Authority's remit should remain within the net cost of services. This has resulted in the prior year reclassification being removed from the Annual Financial Report on the basis of materiality.

3. Bank reconciliations

In 2010/11 and 2011/12 we experienced difficulties in auditing the bank reconciliation which was reported to management in our statement of internal control recommendations. We recommended that management:

- Perform regular reconciliations on an account by account basis;
- Identify all reconciling items; and

Your pension liability is a significant estimate in the Annual Financial Report. This page summarises the movement over time.

- Be able to provide detailed support for each reconciling item.

In 2012/13 we continued to experience difficulties in the audit of the reconciliation, which currently reconciles in year movements for each bank account rather than at a point in time. Following discussion with management we have been provided with one reconciliation which reconciles all bank account balances in total with the ledger balance as at 31 March 2013. However, reconciliations should be performed on an account by account basis. Management have identified that the brought forward figures for all bank accounts have been merged into a single figure since 1999. We should note that this is a discrepancy within the cluster of bank account ledger codes and the completion of the reconciliation across all accounts provides evidence that this is not a wider issue.

The timely completion of bank reconciliations is an important control and we recommend that management ensure that they disaggregate the ledger codes which will then enable them to perform individual account reconciliations as described above.

4. Pensions liability

The most significant estimate in the Annual Financial Report is in the valuation of net pension liabilities for employees in the Cambridgeshire County Council Local Government Pension Scheme (CCC LGPS). Your net pension liability at 31 March 2013 was £58 million (2012 - £51 million).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We validated the data supplied to the actuary on which to base their calculations.

As part of our audit procedures we receive information under a protocol from the external auditors of the CCC LGPS, which provides comfort over the existence and valuation of scheme assets in particular. On receipt of this report at the end of August it was identified that the Actuary in their calculation of the net pension liability for the total fund at 31 March 2013 had estimated total scheme assets of £1,967m. The results of the CCC LGPS audit identified that the actual value of scheme assets at the balance sheet date for the fund was £1,904m, a difference of £63m. In assessing whether this created a material issue for the Authority we calculated the Authority's share of assets in comparison to the whole fund and identified that the scheme assets at 31 March 2013 were potentially overstated by approximately £3m. This issue will affect all admitted bodies to the CCC LGPS and as such the CCC LGPS and its auditors are coordinating centrally to determine the extent of any adjustments required to the accounts of member bodies. Pension assumptions and estimation processes are complex and as such at the time of writing this report we are in the process of liaising with the auditors of the CCC LGPS, the Actuary and internal pension, audit and accounting experts to understand the reasons for the difference and the potential impact on the Annual Financial Report of the authority. We will provide you with an oral update on 26 September.

Changes to IAS 19: Employee Benefits

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used. The net scheme liabilities will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

The 2012/13 accounts include disclosure of standards issued but not adopted and estimates of their likely financial effect. Estimates of the impact of IAS 19 (Revised) have been obtained from the actuary. The impact on the Authority in the 2012/13 accounts would be an increase in the non-cash charge to the income statement by £0.650 million which will not impact the general fund.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. At the time of writing this report we are pleased to note that there are no unadjusted misstatements to report.

There are no misstatements we wish to bring to your attention which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

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

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the Annual Financial Report:

- ***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.

  As in previous years we have however noted that 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 Annual Financial Report. We recommend that management ensures that they continue to review the reasonableness of applying this policy on an annual basis.

- ***Calculation of pension fund assets and liability*:** See above. Management has utilised the information provided from the actuary which is the fundamental basis of this estimation.

- ***Valuation and impairment of property, plant and equipment*:** During the financial year management informed us that they were planning to amend their estimation process for the valuation of land and buildings held as property, plant and equipment. This has involved changing from a five to three year rolling programme which should provide the Authority with a more accurate estimate for the valuation of their assets in the Annual Financial Report.

  In accordance with its accounting policy, the Authority has revalued a proportion of its PPE assets in 2012/13. For assets not valued during 2012/13, a review of fair values as at the balance sheet date has resulted in no changes to property valuations being processed within the 2012/13 Annual Financial Report. In estimating the fair value to be included in the 2012/13 Annual Financial Report, 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 2012/13 Annual Financial Report;
- 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.

Our procedures provided us with sufficient assurances that the financial statements are free from material misstatement.

We are pleased to note that, during the financial year, management provided us with an early draft of the instructions to the valuer on which we provided some additional comments and suggestions which enabled management to provide the valuer with comprehensive instructions suitable for assessing the impact of valuations in the Annual Financial Report. The above process has also enabled the audit of valuations to be much smoother than in previous years.

We do however note that management should ensure that they review the work of the valuer in detail and cross refer their final report back to the instructions. We identified two instances where insufficient information was provided by the valuer to support the overall conclusion in the Annual Financial Report. Subsequent conversations with the valuer have however resulted in the required information being provided.

- ***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 2012/13 Annual Financial Report, management has utilised the expertise of an external valuer.

  In response to the requirements of 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 2012/13 Annual Financial Report;
  - 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.

  Our procedures provided us with sufficient assurances that the financial statements are free from material misstatement.

- ***Valuation and impairment of other non-current assets:*** We are pleased to note that review of valuations and impairment work performed by the Authority identified that, following our recommendations in the previous year, management have incorporated an impairment review and estimate of the remaining useful life of assets into their annual confirmation for the existence of assets.

We performed sample testing on this work and have no significant matters to report.

- ***Provision for bad debts:*** The Authority has recognised a provision for bad debts within the Annual Financial Report against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances.

  Following on from our recommendations raised in the previous year management have implemented a documented process for the review and calculation of the bad debt provision for each category of debt.

  In addition a review of the appropriateness of the provision has been performed using data spanning back over the past five years to develop an average expectation for the current year provision for each category of debt. This work resulted in management releasing £0.195m from the bad debts provision back to general reserves in the draft Annual Financial Report. Our work did not identify any material misstatement; however it was identified that a further £0.195m should be released to reserves based on management's calculations. This has now been amended by management in the Annual Financial Report.

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

Management representations

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

Financial standing

No material uncertainties related to events and conditions that may cast significant doubt on the Authority's financial standing have been identified. We have included details related to our work on the Value for Money Conclusion on pages 14-19.

Audit independence

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

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

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 Annual Financial Report.

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

In addition to the audit of the Annual Financial Report, PwC also provide Huntingdonshire District Council's grant audits which involves certification of the grants using specified procedures set by the Audit Commission. In terms of ensuring adequate safeguards for any self-review threat:

- The work is mandatory as per the Audit Commission's contractual relationship.
- The extent of work required is set out by the Audit Commission through the issuing of "Certified Instructions" for each certification / claim.
- There is oversight by senior team members. Clive Everest is the engagement leader for both the certification work and the main external audit. In addition both certifications include technical review by a relevant expert external to the main engagement team.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2013 is included on page 22. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

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

Rotation

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

Gifts and hospitality

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

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.

Value of money conclusion – there are four areas we wish to bring to your attention in concluding our audit work:

1. ***Financial position;***
2. ***Project management;***
3. ***Procurement and contracting; and***
4. ***Culture of control and compliance.***

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.

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 Annual Financial Report.

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 note that the style of the report has been amended in the current year, which in our opinion provides a more comprehensive and concise review of governance for its users.

At the time of writing this report we have communicated comments and suggestions to management and are awaiting the final version of the AGS for final review. We note that significant matters we have been made aware of during the course of the audit have been included.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

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

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

At the time of writing this report we have completed our work, subject to the following outstanding matter:

- A legal view from the Authority as to whether the LGSS contract meets the definition of a shared service / partnership agreement, and if it should have been subject to EU tendering rules.

As part of our work this year we have identified four areas in particular that we wish to bring to your attention. These include:

1. Financial position;
2. Project management;
3. Procurement and contracting; and
4. Culture of control and compliance.

A summary of the key findings have been set out below. It should be noted that we have worked closely with internal audit and have made reference to their findings where relevant.

Financial position:

In the past the Authority has generally had adequate reserves to support their continued operations. As part of the audit commission toolkits it has been flagged that the Authority's use of reserves is above average when compared to other bodies, however the level of reserves has not been at a level to cause significant concern.

The Medium Term Financial Plan includes the use of reserves in balancing the budget with the acknowledgement that significant savings will be needed going forward. Despite this use of reserves, and comparing approved budgets to the final out-turn for the years 2009/10, 2010/11 and 2011/12, it has been demonstrated there that there has been a consistent pattern of under spending. Assessing the forward projections for reserves, the Authority is likely to hit their minimum reserves level by 2015/16.

Year	In year use of reserves – £'000	Remaining reserves at year end £'000
2012/13	2,853	10,796
2013/14	2128	8668
2014/15	1984	6684
2015/16	1,458	5226

Internal audit issued a report in June 2013 which identified concerns relating to the following elements of the Medium Term Plan (MTP) process:

1. Examples of savings plans not being supported by robust working papers that substantiate or support the figures included in the MTP and budget. We understand from discussion with management that budget holders are sometimes provided with aspirational targets which are refined in subsequent MTP reviews.

2. The MTP process has been highly dependent on a single individual with minimal secondary review before submission to Members. In addition not all variances to the MTP spreadsheet are substantiated by working papers stating the assumptions made and any conditions attached. We understand that for 2014/15 management have arranged for two officers to share the process to create robustness and ensure that the sources of data are fully recorded. This should also ensure that the spreadsheet model is secure and checked.

3. Some items are held on central codes pending allocation to individual services so that the net budget is achieved but all of the budget may not be allocated to services at that time. Management have stated that the timing of the subsequent allocation reflects the nature of the item.

In addition we have identified the following matters during the course of our work:

- A formal savings plan is not separately identified, agreed at the start of each financial period and monitored over the course of the year. Management have confirmed that savings are allocated to budgets and managers are expected to deliver them or to report that this will not be possible as part of the budgetary control process. Management's view is that the achievement of a saving in an alternative way is acceptable if it does not have an adverse impact on service delivery. Where this occurs it would be highlighted in the normal course of budget monitoring or when the MTP is reviewed.

  Our view is that, whilst the achievement of the budget helps to inform the overall financial position it does not necessarily enable the Authority to identify and take timely and appropriate actions where specific savings are not being realised. Furthermore the Authority may not be in a position to understand key drivers for costs and savings in departments, potentially lessening chances of utilising and sharing lessons learnt.

  We consider it would be good practice for the Authority to introduce formal procedures to initially record and subsequently monitor savings plans, with each plan having an assigned 'owner' who monitors the plan regularly and reports variances to Cabinet with budgetary information.

- We believe it is also best practice that zero based budgeting is performed and appropriate challenge is applied during the budget setting process to better identify and understand the Authority's cost base. We are not aware of this having occurred in recent years. Management have stated that they will record challenges to budgets and savings as part of the MTP process.

- The regularity of the current in year financial reporting should be considered. Cabinet receives financial monitoring reports quarterly and managers review their budgets monthly. It would normally be good practice that monthly monitoring of the overall financial position would be undertaken to identify any significant variances early on. Management have confirmed that a high level dashboard on the financial position is now produced monthly for all Members. A further monthly service highlight report is currently being considered.

- Given the significant historic variances against budget it should be ensured that budget holders are being held to account and justification sought where there are any significant under or over spends forecast. This process would help to avoid large variances at the year end. Management should ensure that full ownership is being taken by service managers and that appropriate challenge is applied by accountants to ensure effective review of budgets against actual and forecast spend. This point has been recognised by the Authority and has explicitly been included in the AGS.

As detailed above, there are a number of recommendations which we believe could be implemented to strengthen the budgetary control and financial planning process for the medium and longer term. We would also consider it best practice to introduce a more robust process for identifying and monitoring savings plans.

Whilst we deem these matters significant enough to bring to your attention, the Authority has demonstrated historical underspends against budget and there is evidence to support sufficient reserves in the medium term. As such we do not deem it appropriate to qualify the value for money conclusion on this basis. We note that budgetary control has been included as an area for improvement in the Annual Governance Statement.

Project management:

During the year the Authority contracted with Local Government Shared Service (LGSS) for the provision of HR and payroll services. We understand that LGSS is a joint venture set up between Cambridgeshire County Council and Northamptonshire County Council. Using risk based procedures we have performed a high level review of the contract this year as part of our review of significant contracts. This was discussed within the Authority as being a "shared service" arrangement, and there have been minimal changes in the processes and personnel since the contract was awarded:

1. We understand that the Head of Legal and Democratic Services was not asked to be involved in the review of the contract until the very late stages of the negotiations. Work around the procurement of this contract is currently being discussed with the Authority's legal team to get their formal view as set out in the oustandings above. Depending on the answer to these queries, there is a risk that the procurement may not have met EU procurement rules.

2. In reviewing the contract cost proposal it was noted that the overall cost of the service was calculated based on a number of assumptions, and covering several options. The estimated costs were then broken down into the contract cost with LGSS plus an element of costs that would still be incurred by the Authority through remaining staff in relation to payroll and HR.

   The main option considered by the Authority was LGSS with the current system. The initial costs drawn up by accountancy were £4,541k. This would have made the chosen option the most expensive.

Following review of the accountancy assumptions by the former Managing Director of Resources, the overall estimated cost was reduced to £3,997k. The methodology and reasons behind this reduction have not been documented and are therefore unknown. This subsequently made the transition to LGSS whilst retaining the current payroll package the second lowest cost option.

Following our findings the Assistant Director (Finance and Resources) has reviewed the two versions and concluded that in his view the figure of £3,997k is reasonable as there were items in the original calculation that were confirmed as already included in the contract and some other items were significantly over-cautious. Whilst we have seen some evidence in relation to changes made in the services provided under the LGSS contract, there are some elements which have been based on management's current views of what assumptions may have been made at that time, that can now not be supported.

The above highlights that there was no contemporaneous documentation of the adjustments which represents a compliance failure in the process. There is a key need for an audit trail to be preserved on important financial decisions and a need to ensure that there is an effective structure to challenge senior staff as finance staff did not challenge the understanding of how the revised costs had been derived.

We should note that all options were more expensive than the existing arrangement, with a budget of £3,878k. At the point of approval by Council the option selected was the second cheapest option. We note that the report highlighted a number of non-financial advantages. We have not reviewed these in detail but understand that these were perceived to outweigh the additional cost.

4. We note that penalty clauses for poor service linked to key performance metrics were not built into the contract with LGSS. Despite there being a number of complaints about the delivery of contracted services from managers, we understand that the Authority is unable to impose financial penalties on LGSS.

5. Because there are no financial penalties for underperformance (although it is noted that in the event of non-compliance with the contract remedial action would be undertaken at LGSS' expense), and we understand there are no arrangements for the Authority to share in efficiencies through cost reductions under the current contract, the Authority is at risk of having locked in their future costs based on an inefficient service, having lost the opportunity to get financial benefit through restructuring the service, and having less ability to ensure service quality is maintained. On this basis there is a real risk that this contract may prove to be poor value for money.

   Management have confirmed that the Authority has some ability to share in the benefits of certain future efficiency proposals. One area, specifically considered was if LGSS transferred operation to the Oracle system. Following examination this did not prove to be appropriate but there has been recent consideration of a move to Agresso but the pay-back period stretched beyond the current remaining life of the contract. More routine efficiency improvements benefit LGSS alone but this was known and understood when the contract was let.

6. Performance monitoring reports are prepared by LGSS and reviewed at performance review meetings; however these are not subject to independent scrutiny and review for accuracy.

7. Contract overview meetings take place to review contract performance and discuss LGSS performance reports. Whilst discussion with management has identified that the reports are scrutinised and, where

relevant, notes have been circulated, this process could be more formalised.

8. At the time of writing this report a formal review and report on how the service is performing has not been undertaken. We understand that a formal report on service performance is to be taken to the September 2013 Employment Panel.

We understand that the Authority may be looking to undertake similar arrangements for other areas of the Authority. We therefore recommend that additional evidence in respect of the compliance, regularity and value for money of the LGSS contract is sought to ensure lessons are learnt before making any decisions.

Procurement and Contracting:

During the year, internal audit informed us that they had become aware of a potential breach in procurement rules for a contract, which this was reported to you separately as part of the July 2013 Panel meeting. We have therefore not included detailed information in this report due to the nature and sensitivity of those findings. We do however note that the findings detailed serious non-compliance with the Authority's procedures.

The Authority is in the process of investigating potential differences in payments made under the contract. These are not material and hence do not prevent us from forming our audit opinion. At the time of writing this report we understand that this work is still in progress.

We understand that there is also a report on improving internal controls on the Panel's September 2013 agenda, dealing with the proposed actions to minimise the chances of these issues recurring.

Culture of control and compliance

Whilst we have not undertaken a detailed review of controls and compliance with controls across the Authority, in considering the issues related to project management, procurement and contracting we observe that there are some examples of poor compliance with mandated control procedures, inadequate identification of these breaches by more senior staff and weaknesses in the degree of financial challenge and rigour applied. Whilst this does not provide conclusive evidence it does raise concerns over the overall culture of compliance within the Authority, without which the established controls structure cannot operate effectively, even if adequately designed.

We would encourage the Authority to look closely at this issue, to establish the extent to which these are isolated issues or indicative of wider concerns across the Authority encompassing all staff in critical control positions. To the extent there are broader compliance issues, the Authority will need to consider closely how it responds, through changes to procedures and training.

We note also that the Authority is heavily dependent on key individuals for its financial reporting, without whom the improvements made in the last two years could be lost.

Conclusion of value for money opinion:

In determining whether to issue an unqualified or qualified opinion we have carefully considered the items detailed above and have concluded that it is appropriate to issues an unqualified value for money conclusion.

In relation to the contracting and procurement matters identified above, and the culture of compliance in the Authority, actions are being taken by the Authority to address the matters identified and our discussions with the new Managing Director have identified that these are high priority issues for the coming year. Both the procurement and project management matters feature in the Annual Governance Statement.

Reports in the public interest

In auditing the accounts of a Local Authority, the auditors must consider:

- Whether, in the public interest, they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by the body concerned or brought to the attention of the public; and
- Whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit.

Having carefully considered the issues identified in relation to contracting and procurement above, we have determined that a report in the public interest is not required. We believe we can most effectively discharge our reporting responsibilities in a timely matter through referring to these issues in our Annual Audit Letter.

We are required to report to you any significant deficiencies in internal control.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Annual Financial Report and our review of the annual governance statement.

We have to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention. Other than the matters identified in the main body of this report we have no further issues to report.

We report those internal control issues that are less significant separately to the management, with action plans being agreed with officers. Consistent with prior years our Internal Control Report will be issued in due course, however we have discussed all matters identified during the course of the audit with management.

Fraud is a risk in all organisations. We ask you to represent to us that you have made us aware of all fraud affecting the Authority.

Risk of fraud

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

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

Fees update

Fees update for 2012/13

We reported our fee proposals in our plan. At that time the fee was under debate with management. We agreed to a fee in line with the scale fee (£70,081 for the Annual Financial Report (including whole of government accounts and Local value for money conclusion)); however this would be reviewed during the audit where we were required to perform additional work due to delays/errors by management.

During the course of the audit we have experienced some minor delays and following discussion with management we will be looking to seek a variation to scale fee.

Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance within the Grants Report to Management in relation to 2012/13 grants.

Appendices

The letter of representation includes generic and specific items that we require you to represent to us as appropriate in the compilation of the Annual Financial Report

Appendix 1: Letter of representation

[Entity letterhead]

PricewaterhouseCoopers LLP
Abacus House,
Castle Park,
Cambridge,
CB3 0AN

Dear Sirs

Representation letter – audit of Huntingdonshire District Council's (the Authority) Annual Financial Report for the year ended 31 March 2013

Your audit is conducted for the purpose of expressing an opinion as to whether the Annual Financial Report of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2013 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13.

I acknowledge my responsibilities as the Assistant Director (Finance and Resources) for preparing the Annual Financial Report as set out in the Statement of Responsibilities for the Annual Financial Report. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

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

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

Annual Financial Report

I have fulfilled my responsibilities for the preparation of the Annual Financial Report in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Annual Financial Report give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the Annual Financial Report.

Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the Annual Financial Report for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

The Authority has recognised the following significant accounting estimates in the Annual Financial Report:

- Provision for bad debts;
- Valuation of property, plant and equipment, intangibles and investment properties;
- 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:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
- 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/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Annual Financial Report.

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 2012/13.

- 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 Annual Financial Report, including non-compliance.

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 Annual Financial Report such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

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

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

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

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

- the results of our assessment of the risk that the Annual Financial Report may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

    – management;
    – employees who have significant roles in internal control; or
    – others where the fraud could have a material effect on the Annual Financial Report.

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

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 Annual Financial Report.

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 Annual Financial Report.

The Authority 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 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 2012/13.

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

Employee Benefits

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

Contractual arrangements/agreements

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

The Authority has complied with all aspects of contractual agreements that could have a material effect on the Annual Financial Report 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 Annual Financial Report 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 Annual Financial Report 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 2012/13.

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 on-going.

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.

Retirement benefits

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 following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities 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:

2011/12	**County Fund – Main Assumptions**		**2012/13**
2.5%	Rate of inflation of pensions		2.8%
4.8%	Rate of increase in salaries		5.1%
2.5%	Rate of increase in pensions		2.8%
4.8%	Rate of discounting scheme liabilities		4.5%
5.6%	Expected return on assets		4.5%
	Mortality		
	Longevity at 65 for current pensioners		
21.0 years	Men		21.0 years
23.8 years	Women		23.8 years
	Longevity at 65 for future pensioners		
22.9 years	Men		22.9 years
25.7 years	Women		25.7 years
	Expected long-term rate of return on assets		
6.3%	Equity Investments		4.5%
3.3%	Bonds		4.5%
4.4%	Property		4.5%
3.5%	Cash		4.5%
25%	Take-up option to convert pension into tax free lump sum up to HMRC limits	For pre-April 2008 service	25%
63%		For post-April 2008 service	63%

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2013, have been taken into account or referred to in the Annual Financial Report.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2013 have been properly valued and that valuation incorporated into the Annual Financial Report.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

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 Annual Financial Report have been disclosed to you.

Pension fund registered status

I confirm that the Cambridgeshire County Council Local Government Pension Scheme in which the authority participates 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 I have disclosed all bank accounts to you.

Items offset against one another

Regarding cash balances that have been offset against the bank overdraft and the net amount reported, I confirm that I am satisfied as to the legal right of offset as confirmed by the Authority's bank.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the Annual Financial Report 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.

Using the work of experts

The Authority makes use of the following experts in preparing its Annual Financial Report:

- 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 listed 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 Annual Financial Report 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

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 Annual Financial Report.

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 satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets.

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 entered into during the year have been made available to you.

Financial Instruments

Where fair values have been assigned 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.

Disclosures

Where appropriate, the identity of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the Annual Financial Report.

I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the Annual Financial Report all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Litigation

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

Transactions with members/officers

Except as disclosed in the Annual Financial Report, no transactions involving members, officers and others requiring disclosure in the Annual Financial Report under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 have been entered into.

Items specific to Local Government

I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 38 to the Annual Financial Report for which we should have made provision in the Annual Financial Report.

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

I confirm that 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.

Subsequent events

Other than as described in the Annual Financial Report, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the Annual Financial Report or in the notes thereto.

As minuted by the Corporate Governance Panel at its meeting on 26 September 2013

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(Assistant Director (Finance and Resources))

For and on behalf of Huntingdonshire District Council

Date ....

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