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Huntingdonshire District Council

Annual Audit Letter

2013/14

Government and Public Sector

October 2014

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.

Contents

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Introduction

The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Corporate Governance Panel in the following reports:

- Audit plan for 2013/14;
- Audit opinion for the 2013/14 financial statements, incorporating our conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2012/13.

The matters reported here are the most significant for the Authority arising from our work.

Scope of Work

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

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the account in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Corporate Governance Panel on 25 September 2014 in our *Report to the Corporate Governance Panel of the Authority on the audit for the year ended 31 March 2014 (ISA (UK&I) 260)*. A final version of our report, following the completion of all audit work, was issued on 26 September 2014. We issued an unmodified audit opinion on the same date.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	On 26 September 2014, we reported to the National Audit Office that the consolidation return was consistent with the audited statutory accounts.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 September 2014, we issued an unqualified value for money conclusion.

Audit Responsibility	Results
Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	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. No matters were noted in this regard.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There were no issues to report in this regard.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	There were no issues to report in this regard.

Audit Responsibility	Results
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	We issued our completion certificate on 26 September 2014.

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 26 September 2014.

We noted significant issues arising from our audit within our *Report to the Corporate Governance Panel (ISA (UK&I) 260)*. This report was presented in draft to the Corporate Governance Panel on 25 September 2014 and a final version was issued on 26 September 2014. We wish to draw the following points, included in that report, to your attention in this letter:

1. Valuation of property;
2. Estimation of the pension liability;
3. Council tax benefit reform; and
4. Provision against non-domestic rates appeals.

1. Valuation of property

The Authority holds a significant property, plant and equipment (PP&E) portfolio and, in common with other authorities, each year a number of significant judgements are required in order to generate the figures for the current valuation of these assets in the financial statements.

During 2013/14 the Authority revalued their Leisure Centres following significant redevelopment spend. These centres represent the majority of the Authority's PPE balance in the accounts. This resulted in a revaluation of £9,617k and an impairment of £348k being recorded in the 2013/14 financial statements within the Comprehensive Income and Expenditure Statement.

The Authority utilised the expertise of an external valuation expert in the annual valuation of the Authority's PP&E and investment properties. Our internal valuation experts reviewed the assumptions and methodologies used by the Authority's external valuation expert and confirmed these were reasonable for use in the accounts process.

The audit team validated the inputs into the valuation report including the site areas, with a particular focus on the Leisure Centres valued in the year. Based on our analysis, the key valuation inputs appeared to fall within an acceptable range for land and buildings.

Where assets were not re-valued in year, we reviewed the Authority's impairment assessment, and evaluated whether the assets were held at an appropriate value in the accounts at the year-end. We also reviewed the work performed by management to evidence that there were no material upward changes to the carrying values on these assets.

We tested the accounting entries made in relation to revaluations and impairments and found no significant issues to report to you in this regard.

2. Estimation of the pension liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Cambridgeshire County Council Pension Fund, of which Huntingdonshire District Council is an admitted body.

We reviewed the reasonableness of the assumptions underlying the pension liability and we undertook audit work on the data supplied to the actuary on which to base their calculations. We have no matters to draw your attention to in this regard.

As part of our audit procedures we receive information under a protocol from the external auditors of the Cambridgeshire County Council Local Government Pension Scheme, which provides assurance over the existence and valuation of scheme assets in particular. Consistent with our *Report to the Corporate Governance Panel 2012/13*, we again identified a difference between the estimated scheme assets used within the actuarial calculation and the actual scheme assets held by the pension fund as at 31 March 2014. In comparing the asset value per the actuary's report to the admitted body's share of the audited pension fund assets, we are comparing two estimates. In effect we are using the estimated percentage share of the audited assets figure to assess the reasonableness of the actuary's estimate. In our view as a firm, and consistent with the prior year, a reasonable threshold would be +/- 5% of the asset value.

As the difference in 2013/14 between the actuary's estimate of the total value of the fund and the audited total value of the fund falls within the +/- 5% threshold (actual difference is c.1.7%) it was deemed to be reasonable.

3. *Council tax benefit reform*

From 1 April 2013, Council Tax Benefit (CTB) was replaced by local authorities' own council tax support and reduction schemes. Following the abolition of CTB, the Authority has introduced a Council Tax Support (CTS) scheme having set their own rules (subject to a number of restrictions imposed by the Government).

As a new scheme was introduced we performed additional audit procedures this year to:

- Understand the criteria the Authority had set and the initial modelling performed to estimate the cost of the scheme;
- Review the accuracy of budget monitoring and reporting of CTS;
- Understand and evaluate the change processes and access to the Northgate system, being the system used by the Authority to process CTS; and
- Review the parameters now used within the Northgate system.

We also undertook focused testing on a sample of transactions under the new arrangements to ensure these were correctly processed and recorded. Council Tax Benefit was previously subsidised by the Department for Work and Pensions (DWP) and prior to 2013/14 we undertook certification work on behalf of the Audit Commission as part of the Housing and Council Tax Benefit Return (BEN01). This work was also leveraged to support our work on the audit opinion. However, due to the localisation of schemes the Audit Commission has revised its certification instructions (as DWP involvement ceased with the new CTS schemes) and we therefore needed to perform additional detailed testing procedures as part of the financial statements' audit to gain assurance over the accuracy, completeness, cut-off and existence of a sample of CTS claims.

We had no issues to report regarding our additional work performed on the Northgate system or on the CTS claims balance included within the financial statements.

4. *Provision against non-domestic rates (NDR) appeals*

As noted within our audit plan presented in March 2014, there were changes this year to the arrangements for collection of non-domestic rates (NDR) and as a result the Council is required to recognise a provision for appeals against the rateable value upon which NDR is paid.

NDR income is collected by the Council from every business based in the Huntingdonshire jurisdiction. From 1 April 2013, the amount collected was split between the Government (50%), Cambridgeshire County Council (9%), Cambridgeshire Fire and Rescue Authority (1%), with 40% retained by the Council.

Government has put in place a "safety net" level for all Councils; in the event that the Council's share of the NDR income falls below this threshold, Government will make a payment to reimburse the Council. As a result of the appeals provision, the Council has recognised a significant cost in 2013/14 and has invoked the safety net. The expected payment from Government, calculated based on the current provision, is £1.0m.

The total appeals provision stated in the Collection Fund of the Council's financial statements was £5.1m. £1.6m of this balance was in relation to appeals from 2013/14, and £3.5m was in relation to appeals from previous years. The Council engaged a firm of experts to assist in calculating the value of the provision, since there was no provision in previous years to base the figure on.

We assessed the Council's assumptions and basis of the calculation of the provision, and deemed these to be reasonable. We also benchmarked the Council's provision as a proportion of total NDR collected against other local Council's and the provision fell within the average range. We ran sensitivity analyses on the level of the provision and, due to the safety net arrangement, we noted any increase or decrease in the provision in the Council's accounts would have been offset by a payment or levy from government and therefore there was no net impact on the general fund.

We highlight that the provision figure in the Collection Fund and the proportion recognised by HDC is uncertain, as is the actual level of government safety net debtor, however, the net of these two amounts was not material to the Council's accounts. This was disclosed as an estimate with sensitivities in the accounts.

The Council did not include a provision in respect of any amounts for claimants who had not come forward and lodged an appeal. We were aware that some other councils had recognised an additional provision, and there was disagreement nationally over the appropriateness of this treatment. However, as noted above any increase in provision would have been offset by a safety net payment and therefore would have had nil net effect on the Council's reserves.

Our work performed over this area did not identify any issues, other than that the provision was initially recognised within "Short Term Liabilities" not "Provisions" within the draft financial statements. We proposed an adjustment in respect of this – which management applied to the final set of financial statements.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, we found the following matters which we wish to bring to your attention:

- The recurring funding gap identified each year of the MTP as presented to Cabinet in February 2014 was as follows:

  - 2014/15: £1.0m
  - 2015/16: £1.8m
  - 2016/17: £1.7m
  - 2017/18: £2.4m
  - 2018/19: £2.9m

- The total savings required over the first five years of the MTP are therefore £9.8m.
- We have considered and discussed the emerging savings options with officers, in order to understand the current plans to address the funding gap. We note that the plans are at various stages of development.
- The Council has £15.1m of usable reserves and maintains these at what they believe is a prudent level determined by the Council (there is no minimum level set by policy).
- We have considered the Council's historic record in delivering savings; the monitoring and reporting arrangements in the place and the governance structure in place.

In undertaking this work, we did not identify any matters, in relation to the arrangements in place at the Council to secure financial resilience that would cause us to modify our Use of Resources conclusion. Clearly, however, the ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Council, not least as the Council cannot continue to reach financial balance through the use of historic reserves.

In our *Report to the Corporate Governance Panel 2012/13*, we outlined four matters we wished to raise to your attention:

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

We have assessed the Council's progress against these findings and note that actions have been taken in all four areas, and that these are in varying degrees of development. Progress is being made against each of our findings, however the Council is aware that more needs to be done and that these will continue to be areas of focus for the Council in the medium term.

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 26 September 2014. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent *Annual Certification Report for 2012/13* to those charged with governance in March 2014. We certified two claims worth £100 million. In one case a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our *Annual Certification Report for 2012/13*. We will issue the *Annual Certification Report for 2013/14* in March 2015.

Other matters

In our capacity as appointed auditors, we are also required to consider matters raised with us by local electors. We have been required to undertake additional work to consider a matter brought to our attention in relation to trading licence monies. There were no matters arising to report in this regard.

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Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been bought to the attention of the Head of Resources.

As part of our audit work in 2014/15, we will follow up the recommendations we have made and report the status of these in future reports.

Recommendation	Management Response	Target Implementation Date
The Council should extend their related party identification procedures to include All nominated/appointed roles and then consider whether any material transactions have occurred which would need to be disclosed. Note: as these are all nominee positions we do not consider this to be significant weakness, but given reputational and fraud risks associated with related parties, we have recommended that these transactions be more closely controlled and disclosed.	Management will seek views from other practitioners in preparation for 2014/15 accounts closure to determine if "member representations" are required disclosures in respect of Related Party Transactions. Owner: Clive Mason, Head of Resources	March 2015

Final Fees

Final Fees for 2013/14

We reported our fee proposals in our audit plan.

We have undertaken additional work this year as a result of accounting issues identified during the course of our audit and matters raised by an elector. Our fees will therefore be in excess of the scale fee and we are currently in the process of agreeing the final amount with the Authority and the Audit Commission. We will report the final position in due course.

Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in March 2015 within the *Annual Certification Report 2013/14*.

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In the event that, pursuant to a request which Huntingdonshire District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Huntingdonshire District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Huntingdonshire District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Huntingdonshire District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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