

Huntingdonshire District Council

Annual Audit Letter

2014/15

Government and
Public Sector

October 2015

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

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 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 opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2013/14. Our Annual Certification Report for 2014/15 will be issued in January 2016 following completion of our work.

The matters reported here are the most significant for the Authority.

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.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK

and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our initial findings findings to those charged with governance in the form of the Corporate Governance Panel on 16 September 2015. The finalised ISA260 report was issued on the 28 September On 28 September 2015 we issued an unqualified audit opinion.
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.	We confirmed to the National Audit Office that the Council was below the required threshold on 28 September 2015.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 28 September 2015 we issued an unqualified value for money conclusion.
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 undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.

Audit Responsibility	Results
<p><i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i></p>	<p>We undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.</p>
<p><i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i></p>	<p>We undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.</p>
<p><i>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.</i></p>	<p>We issued our Audit Certificate on 28 September 2015 on completion of our work. There were no issues to report in this regard.</p>

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 28 September 2015.

We reported our key findings arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Corporate Governance Panel on 16 September 2015.

We wish to draw the following points, included in that report, to your attention in this letter.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Cambridgeshire Pension Fund, for which Huntingdonshire District Council is an admitted body. Your net pension liability at 31 March 2015 was £80 million (2014 - £61 million).

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 prior year *Report to the Corporate Governance Panel*, as expected we 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 2015. 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 and our work did not identify any differences above this threshold.

Valuation of Property, Plant and Equipment

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 in the financial statements.

The final accounts include total PP&E with a net book value of £65.5m, largely made up of land and buildings (net book value of £48.6m). The Authority has utilised the expertise of an external valuation expert, Barker Storey Matthews (BSM), to value a proportion of the Authority's PP&E and investment properties. The Authority operates a 3 year cycle of revaluation and this year (year 2) covered £9.3million of land and buildings, resulting in an upward revaluation of £150k.

Leisure Centres represent the largest element of the Council's estate, and these have not been valued during 2014/15 as they were revalued in 2013/14. BSM have however determined that there is no material impairment to recognise against the carrying value of those assets in 2014/15.

Our valuation expert considered the following items when reviewing the valuation:

- The valuer's qualifications, credentials and objectivity;

- The suitability of the methodology adopted in valuing the assets;
- The key inputs in the valuations, where visible: and
- The valuer's assessment of movements in assets which have not been revalued.

Our valuation experts have concluded that we are able to rely on the work of BSM to gain assurance over the valuation of PPE.

NDR Safety Net Calculation

In August the Department for Communities and Local Government release a revised calculation template for the non-domestic rates safety net calculation. As a result of the revised calculation the Authority's position in respect of 2014/15 moved from a levy position of £72,000 to a safety net provision of £772,000, a total increase of £845,000.

We have considered the revised calculation and concluded that the calculation is appropriate. We have also considered the guidance issued by CIPFA and the relevant standards and concur with the Council's treatment that this is a non-adjusting event. Therefore the Council has correctly not recognised this change in revenue in 2014-15. The additional income will thus be recognised in 2015-16.

Provision against Non-Domestic Rates Appeals

Each year the Authority provides against appeals made against non-domestic rates assessments. At 31 March 2015 the total provision in the Collection Fund stands at £8.3million, an increase from last year's provision which was £5.1m. The Council in turn reports 40% of this provision in its own accounts, being £3.1m.

The Council utilises the services of an external expert, Analyze Local, to inform their provisioning, as they did last year.

The level of provision is driven by three key factors: the number of claims; the success rates on appeal, and the average value of successful appeals. The number of claims

has risen in 2014/15 due to a 31 March 2015 deadline being set nationally for historic claims. This would be expected to increase the level of provision required, but we would also expect that management's estimate take account of the fact that a number of these late claims may be of lower merit and more speculative than those in the past. We challenged management to show that this had been factored into the expert's estimate. Management's view is that there is currently no evidence on which to reduce the provision to account for speculative appeals and therefore it would not be appropriate to do so.

In order to assess the reasonableness of management's estimate, we have conducted a high level review based on the historic success rates of appeals in 2014/15, and the average amount of such successful claims. This suggests that the Authority's provision may be overly prudent, with the 2014/15 estimate being £2.5m greater than our calculation. The amount recognised in the Collection Fund in respect of these appeals is £8.3m.

In conjunction with the lack of adjustment of later claims to reflect their probably lower likelihood of success this may indicate a material overstatement of this provision in the Collection Fund, but not the Council's own financial statements as reported, as the Council only bears 40% (c£1m) of these costs.

We discussed this difference in estimation with the Authority and their experts. Whilst the methodology used by the experts appears reasonable, it was not possible for us to explain the apparent difference in our estimations. We therefore believe that the Authority's estimate may be over prudent.

This is however a difference in judgement on estimations and not fact, and is not material to the accounts of the Authority. Consequently we do not consider this an error for inclusion in the Summary of Uncorrected Misstatements for the Authority. However, we draw this judgement to the attention of the Authority as a key estimate in the accounts, and strongly recommend that the Authority continues to review

this provision in future years, particularly as more historic data becomes available over time, to ensure that it represents your best estimate of the likely costs.

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 2014/15, 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:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that 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 by the Authority for each year of the Medium Term Financial Strategy (MTFS) is as follows:
 - 2015/16: (£0.8m)
 - 2016/17: £0.3m
 - 2017/18: £1.5m
 - 2018/19: £2.1m
 - 2019/20: £2.4m

- The total savings required over the first five years of the MTFS are therefore £5.5m
- 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 key element of the plan is the implementation of the Authority's zero -based budgeting (ZBB). This approach, although not fully rolled out across the Authority, has identified a number of areas of potential savings.
- We also considered the significant underlying assumptions the Authority have applied in producing their MTFS. We note that the Council's plans do not include an annual uplift for cost inflation. We discussed this with officers and challenged whether this assumption was valid: they confirmed this was a deliberate method to drive more efficiency into budgets, such that budget holders would be required to mitigate any inflationary increases by implementing mitigating savings. We recalculated the future funding gap if the Authority were to take account of an estimated average rate of inflation of 2% per annum. This had the effect of increasing the funding gap from £5.5m to £21.2m over the MTFS.
- The Authority has £19.3m of usable reserves and maintains these at what they believe is a prudent level determined by the Authority (there is no minimum level set by policy). When the above analysis is factored in, however, this would leave the Authority with an additional £1.9m of savings to identify over the MTFS. On that basis, even if no compensating savings were achieved to offset inflation, the Authority's reserves would be adequate to cover the deficit until the final year of the MFS.

In reaching a conclusion we have considered the findings above as well as the Authority's historic record in delivering savings; the monitoring and reporting arrangements in the place and the governance structure in place.

We have also considered other factors, such as the revision to the safety net calculation (as noted above) which has increased income for 2015/16 by £845,000, and which is therefore upside not currently included in the MTFS.

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.

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 National Audit Office. The Authority was below the threshold for detailed testing and this was confirmed to the National Audit Office via submission of our Assurance Statement on 28th September 2015.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance in February 2015. We certified 1 claim worth £36,537,686. 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 2013/14. We expect to issue the Annual Certification Report for 2014/15 in early 2016.

Other matters reported to those charged with governance

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

Recommendation	Management Response	Target Implementation Date
<p>No formal authorisation process for journals</p> <p>The current policy for journal review is that any journals over £850k raised by the junior accounting team are reviewed. No other review is carried out</p>	<p>As noted, where an accountant below Principal Accountant level generates a journal of more than £850,000, this is reviewed by either a Principal Accountant or the Accountancy Manager (this does not apply to “interface” journals).</p> <p>For journals below £850,000 that are produced by an accountant below Principal Accountant, a new process will be introduced whereby a random 10% sample of journals will be reviewed by either a Principal Accountant or the Accountancy Manager.</p>	October 2015
<p>Bank reconciliations</p> <p>The authority is in the process of rectifying historic reconciling items on the bank reconciliations, however, there are still a number of reconciling items that date back a number of years. Furthermore, there is no evidence that the bank reconciliations are reviewed.</p>	<p>With regard to historic balances within the bank reconciliation, these have been removed, and were removed in Period 13 of 2014/15.</p> <p>All bank reconciliations from September 2015 onwards will be reviewed by the Accountancy Manager.</p>	September 2015
<p>No formal authorisation process for fixed asset disposals</p> <p>The authority does not have any formal process for reviewing or authorising fixed asset disposals</p>	<p>A formal Disposals and Acquisitions Policy: Land and Property was approved by Cabinet on Thursday 18th June 2015.</p>	Implemented
<p>Depreciation Policy</p> <p>Fixed assets are not depreciated in the first year of purchase so depreciation on newly purchased assets is understated. We are comfortable that this does not cause a material misstatement, however, management should consider including a</p>	<p>The Depreciation Policy will be updated for the 2015/16 Annual Financial Report.</p>	March 2016

note in their accounting policies to state
this

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan. Our actual fees were in line with our proposals as detailed below.

	2014/15 outturn	2014/15 fee proposal	2013/14 final outturn
Audit work performed under the Code of Audit Practice	70,981	70,981	70,081
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Certification of Claims and Returns	18,380 ⁺	18,380	26,269
Non Audit Work – External audit local risk work	7,500 ⁺	7,500	13,753
TOTAL	96,861⁺	96,861	110,103

* Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in December within the Certification Report to Management in relation to 2014/15 grants. We have undertaken additional work due to issues identified, although these do not materially impact the financial statements.

+Additional fees proposed will also need to be approved by PSAA.



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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