

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Annual Audit Letter 2016/17
Meeting/Date: Corporate Governance Committee – 29 November 2017
Executive Portfolio: Resources: Councillor J A Gray
Report by: Finance Manager
Ward(s) affected: All Wards

Executive Summary:

The 2016/17 audit of the Council's Annual Financial Report is now complete. The external auditor, Ernst and Young LLP have issued an Annual Audit Letter and this is attached at Appendix 1. The Annual Audit Letter includes details of the auditor's findings, recommendations and fees in respect of 2016/17.

Recommendation:

The Committee is requested to note the 2016/17 Annual Audit Letter and comment as necessary.

1. WHAT IS THIS REPORT ABOUT/PURPOSE?

- 1.1 At the conclusion of each year's audit work the external auditor issues an Annual Audit Letter, which details their findings and recommendations made along with an indication of the audit fee due.

2. WHY IS THIS REPORT NECESSARY

- 2.1 The Committee is designated as "those charged with governance". Members will recall that at the meeting of the 13 September they:
- received a draft ISA 260,
 - approved the Executive Leader and Officers to authorise the Annual Governance Statement and the Letter of Representation, and
 - approved the Chairman to authorise the Annual Financial Report.

3. ANNUAL AUDIT LETTER 2016/17

- 3.1 On the 22 September the auditors signed the 2016/17 Annual Financial Report and their final ISA 260 report was published by the statutory deadline of the 30 September. The auditors have now issued the Annual Audit Letter, attached as Appendix 1, which details their findings, recommendations and fees for their work in respect of 2016/17.

- 3.2 The key issues highlighted within the Annual Audit Letter which have also been reported in the draft ISA 260 report are:

- **Management override of controls** – a risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly. The Auditors carried out their testing and did not identify any material weaknesses in controls, instances of inappropriate judgements being applied or other transaction which appeared unusual or outside the Council's normal course of business.
- **Revenue and expenditure recognition** – the Auditors are required to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. Their testing did not reveal any material misstatements with respect of revenue and expenditure recognition. Overall, the audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.
- **Property Valuations** – the fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. The Auditors concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement to the value of property in the context of the overall PPE balance in the financial statements.
- **Pension Liability** - this is the most significant estimate in the annual accounts and it is the valuation of the net pension liabilities for HDC employees in the Cambridgeshire County Council pension scheme. The Auditors liaised with the auditors of the Cambridge Pension Fund, BDO to obtain assurances over the information supplied to the actuary in relation to HDC. The assumption were reviewed by PwC and the EY actuarial team who both concluded that the assumptions and methodology used are

considered to be appropriate. concluded that the overall valuation estimates was not unreasonable and did not result in a material misstatement to the value of property. The report from BDO highlighted that the market value of the total Pension Fund assets at 31 March 2017 totalled £2,814m against the actuary's estimate of £2,838m, a difference of £23.6m. The Council's share of the difference has been calculated as approximately £1.2m. The auditors concluded as the movement is not material to the Council that the estimate is considered to be reasonable.

- **Financial Statements presentation** –there are new reporting requirements that impact on the CIES and MIRS and include the introduction of the new Expenditure and Funding Analysis note. The auditors concluded that the disclosures are in line with the CIPFA Code of Practice.

3.3 No material adjustments to the statutory accounts were required as a result of these issues.

3.4 The Control Themes and Observations highlighted in the Auditor Annual Letter are:

- **Accounting records** – there were some areas where the accounting records were not sufficient for the auditors to complete their audit in the most efficient manner. In particular this was an issue when auditing creditors and debtors, leases, cash for the Council, the cash flow statement and mapping of the general ledger.
- **Timeliness of deliverables** –. There were several occasions where the length of time between requesting a deliverable or working paper and actually receiving it was longer than agreed.
- **Reliance on key personnel** – there were often some staff unavailable either through illness or because the work had been completed by an external contractor. This caused delays in answering queries and in some instances demonstrated an over reliance on individuals.
- **Amendments to the financial statements** – during the course of the audit a number of audit adjustments and changes were proposed by both the Council and the auditors.

A full review of the annual accounts process, and the auditors control themes and issues, has been carried out. The table below addresses these issues:

| Issue | Lessons learnt | Action |
|--------------------|---|--|
| Accounting records | The quality of the working papers in some areas were not sufficient. The current review of the working papers is not good enough. | <ul style="list-style-type: none"> • Creditors and Debtors working papers to be fully reviewed and redone in preparation for 2017/18. • Leases supporting evidence to be included in the working papers ready for the auditors • Cash flow statement – the CIPFA model is being procured and the accounts for 2015/16 and 2016/17 will be tested on |

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| | | <p>this.</p> <ul style="list-style-type: none"> • Mapping – this will be tested and reconciled with procedure notes before the interim audit. |
| Timeliness of deliverables | This occurred when more than one member of staff was involved in supplying the deliverables | <ul style="list-style-type: none"> • The member of staff responsible for providing the deliverables will be responsible for co-ordinating and collating this information to the auditors in the agreed timescales. |
| Reliance on key personnel | Accountants will need to be more aware of the working papers they are not responsible for, so that a better service can be provided to the auditors. | <ul style="list-style-type: none"> • The accountants will be involved in other areas of the notes in the accounts to have a better understanding |
| Amendments to the financial statements | The amendments were required because in most cases the Code was not fully complied with. | <ul style="list-style-type: none"> • The accountants will read the relevant parts of the Code (which forms part of the working papers) and a thorough review of each working paper will be done to ensure compliance. • Any new changes to the statement of the accounts need to fully worked out to understand the full implications and links to other notes in the accounts. |

3.5 For 2017/18 onwards, the timetable for the preparation and approval of the accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. The auditors undertook some early interim testing in March 2017 in relation to income and expenditure testing. The auditors will meet with the Council to discuss areas that the auditors can complete work earlier in the process and agree an earlier timetable for delivery.

4. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

4.1 The Control themes and Observations highlighted in 3.4 are currently being addressed.

5. LINK TO THE CORPORATE PLAN

5.1 The Annual Financial Report is a statutory and legal requirement and links into the Corporate Plan by 'Ensuring we are a customer focussed and service led Council delivering value for money services – become more business-like and efficient in the way we deliver services.

6. LEGAL IMPLICATIONS

- 6.1 The purpose of this report is to satisfy procedural and legal requirements in connection with the Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies.

7. RESOURCE IMPLICATIONS

- 7.1 The annual external audit fee is included within the 2017/18 budget. The scale fee variation will be found within the existing budgets.

8. REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 The Annual Audit Letter concludes the annual audit process and it is good governance to present the external auditors final report to the Committee charged with Governance.

9. LIST OF APPENDICES INCLUDED

Appendix 1 - Ernst and Young LLP 2016/17 Annual Audit Letter

BACKGROUND PAPERS

Working papers are held in Resources.

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