

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Annual Audit Letter 2017/18
Meeting/Date: Corporate Governance Committee – 10 October 2018
Executive Portfolio: Executive Councillor for Strategic Resources
Report by: Finance Manager
Ward(s) affected: All Wards

Executive Summary:

The 2017/18 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 2017/18.

Recommendation:

The Committee is requested to note the 2017/18 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 26 July they:

- received a draft Auditors Results Report (ISA 260),
- approved the Annual Governance Statement and authorised the Executive Leader and Managing Director to sign the Statement on behalf of the Council
- Gave delegated powers to the Chairman of this committee and the Head of Resources (as Section 151 Officer) to authorise and sign the Annual Financial Report on behalf of the Council subject to the auditors confirming an unqualified opinion on the AFR 2017/18. The auditors provided an unqualified opinion on the AFR 2017/18 and they were duly signed by the Chairman of the committee and the Head of Resources.

3. ANNUAL AUDIT LETTER 2017/18

- 3.1 On the 31 July the auditors signed the 2017/18 Annual Financial Report and their final ISA 260 report was published meeting the new statutory deadline of the same date. 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 2017/18.

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

- **Misstatements due to fraud or error** – 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 and Investment Properties represents significant balances in the Council's accounts and is 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 and that assumptions used by the valuer and adopted by the Council are considered to be generally acceptable.

- **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 assumptions were reviewed by PwC and the EY actuarial team who both concluded that the assumptions and methodology used are considered to be appropriate. However, they concluded that the overall valuation estimates had materially changed from the point at which the actuaries had originally made their estimates. Consequently, the Council obtained a revised estimate and the accounts were amended appropriately.
- **Donated Assets** – included in the draft financial statements was a donated asset of £860k which also impacted grant income and revenue expenditure funded from capital under statute. This related to the transfer of one of Council's assets plus a £300k grant to another local authority in exchange for one of its assets. The treatment in the financial statements treats the transactions separately. However after discussion with the external auditors, Management agreed to amend the entries within the statements to represent the linked nature of the transaction

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

3.4 There were 3 issues raised as “Control Observations” by the auditors within the Audit Letter in respect of the AFR for 2016/17 which related to:

- Accounting records
- Timeliness of deliverables
- Reliance on key personnel

This year's audit letter updates their opinion on the above matters stating:

“We have seen leadership, commitment and engagement from management in addressing the issues arising from the prior year audit. The Council's finance team has invested in enhancing working papers and ensured that accounts and audit process has been delivered alongside the implementation and migration to a new finance system.

In particular we have not had any significant issues with debtors and creditors working papers or the mapping of the general ledger to the financial statements.

We have seen a general improvement in the working papers and provision of evidence, and there has been a high degree of partnership working between both the finance team and us....

We no longer consider these matters to be significant control deficiencies but recommend the Council continues to enhance their closedown process”

3.5 However, within the same commentary their report makes the following observations:

“Whilst we have seen a significant improvement which should be commended, we have still experienced some issues with the following areas:

- Agreed timescales for the provision of evidence and query resolution have not always been met in certain areas of the audit. This has created some pressures on the close down of areas of the audit.
- A bank reconciliation as 31 March for one of the Council’s accounts has not been completed.
- We have seen an increase in the level of issues within fixed assets, particularly in relation to the reconciliation of the information provided by the Council’s valuer to the fixed asset register.”

4. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 4.1 The Control themes and Observations highlighted in 3.5 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 2018/19 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 2017/18 Annual Audit Letter

BACKGROUND PAPERS

Working papers are held in Resources.

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