Government and Public Sector

Huntingdonshire District Council

Annual Audit Letter

2011/12 Audit

November 2012

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Introduction

The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Authority and other stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2011/12 Statement of Accounts, incorporating the value for money conclusion; and
- Report to those charged with Governance (ISA (UK&I) 260).

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 2011/12 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2012 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	Result
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings at that date to the Corporate Governance Panel on 25 September 2012 in our 2011/12 *Report to those charged with governance (ISA (UK&I) 260)*. A final version of our report, following the completion of all accounts preparation and audit work, was issued on 18 October 2012. On 26 October 2012 we issued an unmodified 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 reported our findings to the National Audit Office on 26 October 2012.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 October 2012 we issued an unmodified 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.	There were no issues to report 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.
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 October 2012.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unmodified audit report on 26 October 2012. We identified the following key issues from our audit of accounts:

Preparation of the financial statements

In 2010/11 the Authority struggled to meet the requirements of IFRS in producing its originally submitted 2010/11 financial statements. As a result of the failings in the Authority's financial accounting arrangements the quality of the financial statements produced and presented to us for audit were poor.

We are pleased to report that the Authority has made good progress in preparing a set of draft financial statements suitable for audit in 2011/12 which, given the difficulties encountered in 2010/11 and the resultant late start on the 2011/12 accounts and audit process, is a positive achievement. We are also pleased to note that the audit adjustments arising from our procedures on the financial statements have been limited and all items identified have been immaterial and adjusted by the Authority. Whilst the Authority did not meet the deadline for audited accounts submission by the end of September 2012, in our view this is due to the 2010/11 legacy issues, and is not indicative of ongoing accounts preparation issues

We have however continued to encounter some lower level difficulties with obtaining adequate working papers which support the figures included in the financial statements, which has led to some delays and additional work by both the Authority and ourselves.

During our review of the financial statements we identified a difference between the trial balance and the amount disclosed within the financial statements of £82k. The Authority have investigated the difference and consider that this is due to using two different types of reports during the accounts preparation process; however the correcting adjustments for the difference were not identified. As the amount is not material to the financial statements we have noted this for information only and recommended that the Authority continue to review the process for preparing the financial statements and ensure that only one, reliable source of information is used as a base for collating the financial statements.

We understand that the new accountancy manager has already identified a number of areas for improvement and will be undertaking a full review of the financial statements and working papers in advance of the 2012/13 closedown process to ensure that these are fit for purpose.

Whilst welcoming the improvements made by the Authority in preparing the 2011/12 accounts, we note that they are highly reliant on a small number of key staff in preparing these accounts, and hence that any departures from this team or loss of expertise could have a significant impact on the Authority's ability to maintain this standard of performance.

Related Party Transactions

During our work on related party transactions we raised some queries on the completeness of the disclosures in the financial statements. Subsequent review by the Authority identified some related party transactions that had not originally been disclosed to us or included in the financial statements. We have carried out our required audit work on these new items and have no concerns to raise regarding the transactions themselves, and they have now been properly included in the final accounts. Identification and approval of related party transactions is however an important area of control, and as such we have recommended that the Authority review and improve their procedures in this area for future years.

Capital Accounting

In the 2010/11 "Report to Those Charged with Governance (ISA 260 (UK&I))", we reported that several issues had been identified regarding the accounting for property valuations and depreciation/ amortisation of property plant and equipment and as such we included this as a significant risk in our audit plan for 2011/12.

We performed audit procedures to ensure that the financial statements were free from material misstatement, and noted real improvements in this area in 2011/12. Although we acknowledge the progress the Authority has made in advancing the maintenance of the Authority's capital accounting records we have however continued to identify some weaknesses in the processes currently adopted by the Authority which we have summarised below.

Valuation of land and buildings and investment property

The Authority's accounting policy for land and building assets states that professional valuations will be obtained at least every five years and that in the intervening years there will be regard to the movement in property prices and any other factors that may indicate a significant difference between values in the financial statements and current values indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

In 2011/12 the Authority obtained updated valuations for assets where there had been significant expenditure incurred during the year and processed these adjustments in the financial statements. Whilst we are satisfied that the valuations associated with these assets are reasonable, the Authority did not consider the IFRS requirement that all assets of a category (for example leisure centres) should also be considered for revaluation when one asset from that category is revalued.

In addition, for assets revalued, the Authority did not obtain from the external valuer a view on whether there was any material movement in the remainder of the portfolio until requested by the audit team.

We recommend that the Authority:

- Reviews their policy for the revaluation of property, plant and equipment and confirms that it is fit for purpose and maintains a rolling programme for the revaluation of assets that ensures that the financial statements are free from material misstatement;
- Provides adequate instructions to the external valuer about the properties it requires revaluations for, ensuring that all assets within a category are revalued and a request is made that the valuer performs work to ensure that the rest of the portfolio is not materially misstated. This should also be explicit of the need for the valuer to set out their methodology, key assumptions, independence and professional requirements; and
- Reviews the information received from the external valuer in detail and confirms that it complies with the instructions and is complete before processing within the financial statements.

Valuation of vehicles, plant and equipment

The Authority's accounting policy states that vehicles, plant and equipment are held at historic cost in accordance with the requirements of the Code and IFRS. Our audit procedures have identified that the Authority have not performed an annual assessment to confirm if an impairment review is required.

We have also identified that the Authority does not a have formal process in place for the physical verification of assets. Without procedures in place to perform periodic reviews there is a risk that the Authority's balance sheet is overstated due to disposals within services not reported to finance (where they do not result in proceeds being received), or not identifying items no longer in use . Failing to conduct physical verifications also increases the risk of fraud through theft.

Depreciation and amortisation

Our audit procedures on depreciation and amortisation identified that the Authority do not perform an annual review of useful economic lives for continued appropriateness. Assets included in the report from the external valuer are assigned a remaining asset life, however for all other applicable property, plant and equipment and intangibles an assessment is not undertaken. There is therefore a risk that these reserves and the depreciation charges in the comprehensive income and expenditure statement may be materially misstated.

The Authority may wish to consider performing a combined exercise annually which covers physical verification, assessment of fair value/impairment and appropriateness of remaining asset life.

Valuation of inventories

Throughout the course of our audit we identified that the Authority are valuing inventories using a methodology which is not in compliance with the Code (Last in first out). The value of stock is not material (2011/12: £185k) and as such we do not perceive there to be a risk of material misstatement. We do however recommend that the Authority review this policy and ensure that in future periods stock is valued in accordance with the Code.

Provision for bad debts

The Authority has recognised a provision for bad debts within the financial statements against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances. Whilst the Authority have based their provision for housing debts on CIPFA guidance, there is limited evidence to support the level of provision on the remaining categories of aged debt. We also noted that there is no documented policy for the impairment of accounts receivable. We recommend that this is documented and formally approved.

We identified that there is potentially £827k of debt that is irrecoverable, with a large proportion of this debt being more than 5 years old. This debt is, however, correctly fully provided for in the financial statements.

We note that much of the debt relates to housing benefit where in the majority of cases the debt is being repaid by instalments, sometimes over a very long time scale. There are still however a high proportion of debts for which there has been no or minimal movement.

We recommend that the Authority undertake on a regular basis a review of their older debts and determine those which are potentially recoverable (albeit where it is appropriate to continue to provide for all or most of the balance in the accounts) and those which should be formally written off.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit Commission guidance specifies the criteria for our value for money conclusion:

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

We issued an unqualified value for money conclusion. In 2010/11 the Authority's value for money opinion was qualified due to the delays encountered in the accounts production process which resulted in the Authority not being able to produce a robust set of financial statements in accordance with the statutory timetable. We are pleased to report that the Authority's progress in preparing the financial statements has meant that the value for money conclusion will not be qualified on these grounds in 2011/12.

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 October 2012. We found no areas of concern to report as part of this work.

Grant Claims and Certification

We presented our most recent Annual Certification Report for 2010/11 to the Corporate Governance Panel in February 2012. We certified three claims worth a total of £91,816,167.80. In one case (the claim for Housing and Council Tax benefits subsidy: BEN 01) a qualification letter was required to set out significant issues arising from the certification of the claim. We will issue the Annual Certification Report for 2011/12 in February 2012.

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.

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

In March 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.

Other Matters

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.