



**Huntingdonshire District Council**  
**Audit results report**  
Year ended 31 March 2017



Private and Confidential

22 September 2017

Dear Corporate Governance Committee Members

We have now completed our audit on Huntingdonshire District Council (the 'Council') for the year ended 31 March 2017.

The statutory deadline for 2016/17 is 30 September 2017. The Council signed the financial statements on 22 September 2017. We confirm that we also issued our unqualified audit opinion on this date. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Corporate Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Neil Harris  
Executive Director

For and on behalf of Ernst & Young LLP  
United Kingdom

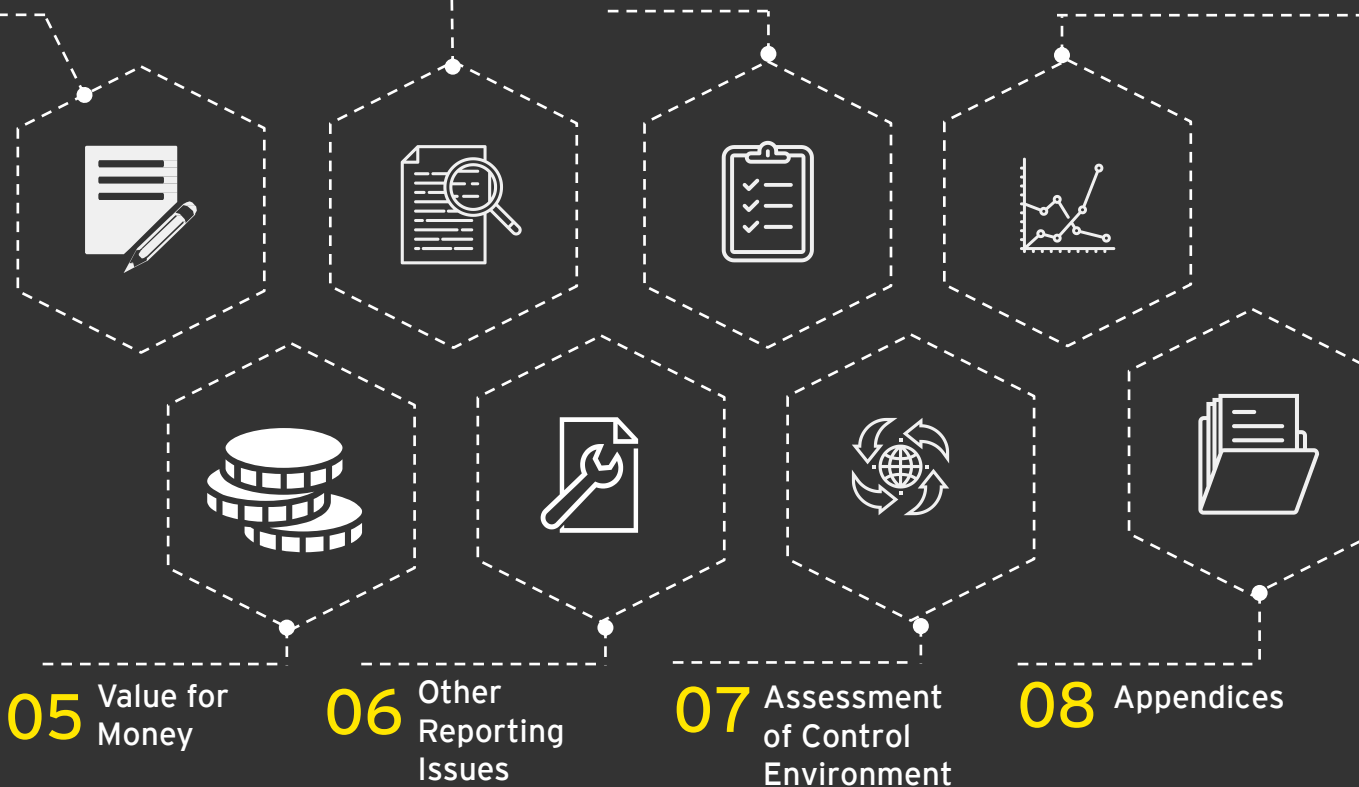
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Governance Committee, other members of the Council and management of Huntingdonshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Governance Committee, other members of the Council and management of Huntingdonshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance Committee, other members of the Council and management of Huntingdonshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



**01**

# Executive Summary



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan presented to the Corporate Governance Committee at their 22 March 2017 meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £1.73 million. We reassessed this using the actual results for the financial year, which has increased this amount to £1.81 million. The threshold for reporting audit differences has increased from £0.086 million to £0.090 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- ▶ Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- ▶ Members' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

### Status of the audit

We have concluded our audit of the Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit Plan. We experienced difficulties in completing our audit which delayed our audit completion which we have set out in more detail in section 7. On 22 September we issued an unqualified opinion on the Council's financial statements in the form which appears at Section 3, including the audit certificate.

We have confirmed that the Council are below the threshold for the completion of audit procedures over the Whole of Government Accounts (WGA) return. As such we are not required to complete any detailed work on the return. We have submitted the Audit Results Report to the NAO in line with their requirements.



# Executive Summary

## Audit differences

During the course of our audit we identified a number of misstatements that have been adjusted by management and one misstatement with a net impact increasing the Council's surplus for the year of £126k that has not been corrected by management. These misstatements have been set out in section 4.

We have also identified a number of disclosure adjustments which have been corrected by management in the financial statements.

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Corporate Governance Committee.

## Value for money

We considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Plan we identified no significant VFM risks and we have not become aware of any matters that change our view in relation to this.

However, we have performed a high level review of the financial resilience of the Council and considered whether there are any significant issues with the robustness of the medium term financial plans and assumptions. We have also considered the governance arrangements in relation to the properties purchased under the Commercial Investment strategy during the year. Overall we have concluded that arrangements are appropriate.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



# Executive Summary

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have set out in section 2 findings in relation to the inspection period which the Council did not fully comply with during the year.

The period for electors and interested parties to ask us questions or object to the accounts ended on 16 August 2017. We received one query in relation to the inspection period but no formal objections.

We have no other matters to report.

## Control observations

We experienced difficulties in completing our audit which has delayed the completion of the audit and the signing of the financial statements which was due to take place on 13 September 2017. We have set out the issues encountered in more detail in section 7.

During the completion of our audit we have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to highlight.



# 02 Areas of Audit Focus







## Areas of Audit Focus


# Audit issues and approach: Risk of Fraud in Revenue and Expenditure Recognition

### Revenue Recognition

#### What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

 Significant Risk

#### What is the risk?

##### Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council incurred a surplus of £0.1 million chargeable to the General Fund.

As the Council is more focussed on its financial position over the medium term we have rebutted this risk for the Council's standard income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme. We have also considered the completeness of liabilities and valuation of certain some estimated liabilities for any management bias.

These areas have also been considered as being linked to the risk of fraud in management override of controls (see below).

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing;
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below);
- ▶ Reviewing accounting estimates for evidence of management bias (see relevant sections below);
- ▶ Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- ▶ Testing a sample of liabilities based on our established testing threshold for reasonableness;
- ▶ Performing cut-off testing of transactions both before and after year-end to ensure that they were accounted for in the correct year based on our established testing threshold;
- ▶ Considering the completeness of liabilities included in the financial statements; and
- ▶ Evaluating the business rationale for any significant unusual transactions.




## Areas of Audit Focus

# Audit issues and approach: Management Override of Controls

### Management override

#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied, nor have we identified any other transactions during our audit which appear unusual or outside the Council's normal course of business.

 Significant Risk

#### What is the risk?

##### Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on PPE given the extent of the Council's capital programme. We have also considered the completeness of liabilities and valuation of some estimated liabilities for any management bias.

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- ▶ Reviewing accounting estimates for evidence of management bias (see relevant sections below);
- ▶ Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias; and
- ▶ Evaluating the business rationale for any significant unusual transactions.



## Areas of Audit Focus

# Audit issues and approach: Management Override of Controls (continued)



### Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- ▶ The valuation of Property, Plant and Equipment - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below. However, given that the impact of valuations do not impact the general fund we do not consider this to be significant estimate subject to management override of control or falling within our risk of fraud in revenue/expenditure recognition.
- ▶ Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below. However, given that the impact of the measurement of pension liabilities do not impact the general fund we do not consider this to be significant estimate subject to management override of control or falling within our risk of fraud in revenue/expenditure recognition.

Specifically in relation to liabilities (other than the net pension liability), we consider that accruals are a lower risk of material misstatement as the majority are based on known values/invoices. We also do not consider deferred liabilities as a higher risk of material misstatement as they relate purely to the deferral of income and involve minimal judgement or estimation. As such, we have focused our work on provisions.

The provisions balance in the financial statements is £1.4 million at 31 March 2017 (£2.4 million at 31 March 2016). The majority of this balance relates to the provision for business rate appeals (£1.3 million) which the Council is required to estimate and include in the financial statements in accordance with the Code. We have not identified any significant issues with the Council's basis of calculation. We have considered the assumptions used in the calculation and consider them to be reasonable. We note that the Council uses an external specialist to assist in the calculation of the liability. We have assessed the work of the specialist, including considering their qualifications and experience with no significant issues identified. The remainder of the provisions of £0.1 million are immaterial.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. No issues were noted in our work in these areas.



## Areas of Audit Focus

### Other audit issues arising



#### Accounting for Property, Plant and Equipment and Investment Properties

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. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages an external expert valuer who apply a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Council's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE and IP may be under or overstated, or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Investment Properties'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- ▶ Considering of the work performed by the Council's valuers, Barker Storey Matthews (BSM), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing over the key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewing assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Considering external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the Huntingdon area where relevant. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.



## Areas of Audit Focus

### Other audit issues arising (continued)



#### Pension Valuations and Disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Cambridgeshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £71.5 million (£68 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of, Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

The report from BDO highlighted that the market value of the total Pension Fund assets submitted to the actuary as at 31 December 2016 totalled £2,718 million. The actuary has then performed a roll forward technique to estimate the value of the scheme as at 31 March 2017 to be £2,838 million. The Council's share of the assets has been reported as being £140.530 million, which equates to approximately 5%. BDO have reported that the actual scheme assets in the Cambridgeshire Pension Fund accounts are £2,814 million, a difference of £26.291 million. The Council's share of this is therefore approximately £1.2 million. The difference between the actuaries estimate and the year end actuals are approximately 0.8% of the asset values and 1.7% of the overall net liability accounted for in the balance sheet. No other significant matters were reported by BDO.

The assumptions used by the actuary have been reviewed by both PwC and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate. As the movement in the scheme assets is not material to the Council, equates to a less than 1% variance, and forms part of an overall estimated balance, fed by a number of assumptions we have concluded that the estimate is considered to be reasonable.

During our work we identified that the overall liability of £675k. This relates to the opening position not matching the actuaries report due to the late audit adjustment posted in the prior year. As the actuary evaluates the estimate each year then the Council should ensure that the year end position matches the actuary report. Management have agreed to amend the financial statements for this.

No other issues have been identified in completing our work. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.



## Areas of Audit Focus

### Other audit issues arising (continued)



#### Financial statements presentation - Expenditure and funding analysis and Comprehensive income and expenditure statement

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changed the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates and reflects the Council's internal financial reporting structure.

This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has required audit review.

Our audit approach has focused on:

- ▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreeing restated comparative figures back to the Council's segmental analysis and supporting working papers.

We proposed some minor disclosure amendments that management have agreed to make in the financial statements. In particular we should note that the EFA is not a Primary Statement (consistent with the Code Guidance notes) and therefore additional narrative has been included to reflect this.

Following receipt of revised working papers from the Council we have concluded our audit work in this area and have no matters to report.



#### Compliance with Accounts and Audit Regulations 2015

The Council is required to advertise the audit inspection period on its website in accordance with the Accounts and Audit Regulations (2015), with the inspection period including the first ten working days of July 2017, commencing on 3 July 2017.

Due to an oversight, the notification was not placed on the Council's website until 6 July 2017. However, the Council did ensure that the inspection period covered the full 30 working day requirements, with it finishing on 16 August 2017. We received a query from a member of public, as did the Council, in relation to the draft financial statements not being published on the Council's website by 30 June 2017. The Council subsequently published the draft financial statements and extended the period for questions from the public until 30 August 2017.

We are satisfied that members of the public were notified of and afforded the opportunity to inspect the Council's financial statements following the re-advertisement of the audit inspection period in the spirit of the regulations. We note that although not published on the Council's website the financial statements were available to members of the public at the Council's office in Huntingdon.

We believe it is important that the Council does publish the draft statement of accounts during the inspection period and we recommend the Council addresses this point for 17-18.



# 03 Draft Audit Report



# Draft Audit Report

## Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUNTINGDONSIRE DISTRICT COUNCIL

#### Opinion on the Authority's financial statements

We have audited the financial statements of Huntingdonshire District Council (the Authority) for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 40 to the Accounts, including the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Huntingdonshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Head of Resources and auditor

As explained more fully in the Statement of the Head of Resources Responsibilities set out on page 21, the Head of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.





# Draft Audit Report

## Our opinion on the financial statements

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the year ending 31 March 2017 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Huntingdonshire District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### Opinion on other matters

In our opinion, the information given in the Annual Financial Report for the year ending 31 March 2017 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Draft Audit Report

## Our opinion on the financial statements

### Conclusion on Huntingdonshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether Huntingdonshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Huntingdonshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Huntingdonshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Huntingdonshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.



# Draft Audit Report

## Our opinion on the financial statements

### Certificate

We certify that we have completed the audit of the accounts of Huntingdonshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Neil Harris  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Luton  
Date:

The maintenance and integrity of the Huntingdonshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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## Audit Differences



# Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of audit differences

We have included all known amounts greater than £0.09 million relating to Huntingdonshire District Council in our summary of misstatements table below that have been identified during the course of our audit and have not been adjusted by management. This adjustment has been included in the letter of representation and has not been amended as the amount is not considered to be material to the financial statements.

We have also included a summary of adjusted audit differences on pages 23 and 24 that we consider to be of significance, and therefore require reporting to you. Management has amended for these errors in the financial statements.

We have also identified a number of minor disclosure adjustments during the audit that have been updated by management in the financial statements. We do not deem any of these to be so significant that they require reporting to you.


Account 31 March 2017 (£'000)	Comprehensive income and expenditure statement Debit/(Credit) Current Period	Assets current Debit/(Credit)	Assets non- current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non- current Debit/(Credit)
Errors:					
<i>Being an adjustment to correct for the undercharging of rental income (factual error):</i> Dr Debtors Cr Income <i>We note that this would also have an impact on the related notes and cash flow statement</i>	(126)	126			
<i>Balance sheet totals</i>			126		
Income effect of uncorrected misstatements	(126)				
Cumulative effect of uncorrected misstatements	(126)		126		



# Audit differences (continued)

## Summary of adjusted differences

At the time of writing this report we highlight the following misstatements in the financial statements and/or disclosures which have been corrected by management.

Account 31 March 2017 (£'000)		Comprehensive income and expenditure statement Debit/(Credit) Current Period	Assets current Debit/(Credit)	Assets non- current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors:						
<i>Being an adjustment to correct for the incorrect netting of bank overdraft against other cash balances (factual error):</i> Dr Cash and cash equivalents Cr Creditors - bank overdraft			1,456		(1,456)	
<i>We note that this would also have an impact on the related notes.</i>						
<i>Being an adjustment to correct the pension liability to match the amount disclosed per the actuary report (factual error):</i> Dr Actuarial losses/(gains) on pension assets and liabilities Cr Pension liability		675				(675)
<i>We note that this would also have an impact on the related notes and cash flow statement.</i>						
<i>Being an adjustment to correctly disclose preceptor balances relating to NNDR year end positions within creditors, which had been netted within debtors</i> Dr Debtors Cr Creditors			629		(629)	
<i>Being an adjustment to correctly classify debtors due in more than one year within long term debtors</i> Dr Long term debtors Cr debtors			3,598	3,598		
<i>Balance sheet totals</i>					(675)	
Income effect of uncorrected misstatements		675				
Cumulative effect of uncorrected misstatements		675			(675)	



We also identified the following key corrected disclosure adjustments:

1. Being an adjustment to release an unsupported balance from capital grants unapplied to the general fund (judgemental):

Dr Capital grants unapplied	£210k
Cr General fund	(£210k)

We note this impacts only within useable reserves.

2. During our agreement of note 8 we identified a number of reclassification adjustments that impacted both the current and prior year. These are as follows:
  - a. The Code specifies and income in relation to NNDR attributable to the billing authority should be shown net of any levies, tariffs, and safety net and top up amounts. The draft accounts included the tariff payments of c£19m in gross expenditure rather than them being netted against gross income. We note however that this had been correctly disclosed in note 13 which discloses taxation and non-specific grant income. As such an adjustment has been made to both the current and prior year to correct the taxation and non-specific grant income line. This has an overall net nil impact on the CIES. As note 8 is new for 201617 there is no requirement to highlight any change in the comparative figures. This has been completed on the face of the CIES though.
  - b. It was also noted that section 31 grants had been incorrectly netted against NNDR in note 13 when they should have been disclosed within the non-ring-fenced grants line in note 13. This impacted both the current and prior year figures within note 8.
  - c. The prior year comparatives for note 8 included an amount of £1,322k that had been incorrectly allocated against housing benefits as opposed to being included in precepts and levies.
  - d. During the review of note 8 a number of other grant balances were identified that had been omitted from the note 32 grant income disclosure. This resulted in adjustments to both the prior and current year in note 32 which discloses grant income.
3. Our review of financial instruments identified that statutory debtors and creditors have not been removed in calculating the note. This has been updated and confirmed as being accurate in the final set. This was also the case for the prior year and as such the disclosure for that was also updated.

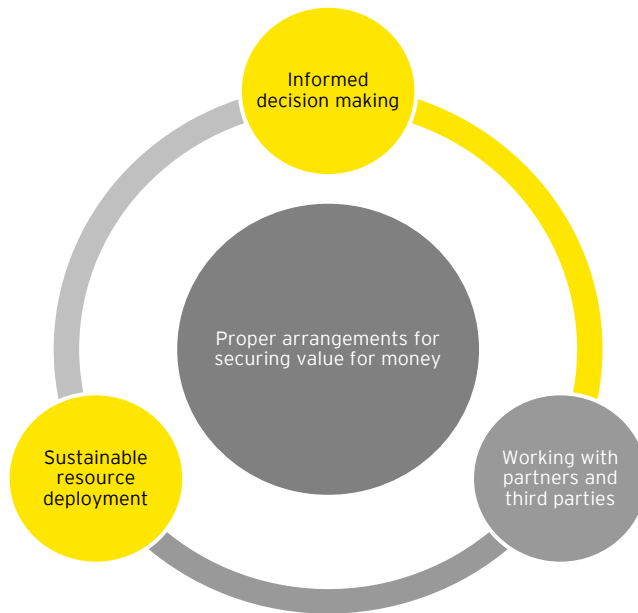


**05** Value for Money





## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We identified no significant risks around these arrangements. However, the table below shows the issues we considered during the course of our audit.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## VFM considerations

What is the VFM area for review?	Arrangements this impacts?	What are our findings?
<p>The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council incurred a small surplus of £0.061 million chargeable to the General Fund as set out in the Movement in Reserves Statement which is broadly in line with budget.</p> <p>To date the Council has responded well to the financial pressure it faces. The 2017/18 Budget and Medium Term Financial Strategy (MTFS) identified a total net savings requirement of £3.652 million over the next 3 years which is to be taken from/(to) reserves:</p> <ul style="list-style-type: none"> <li>▶ 2017/18 - £3.032 million</li> <li>▶ 2018/19 - £1.927 million</li> <li>▶ 2019/20 - (£1.307) million</li> </ul>	<ul style="list-style-type: none"> <li>• Taking informed decisions</li> <li>• Deploying resources in a sustainable manner</li> </ul>	<p>Our consideration focused on a high level review of:</p> <ul style="list-style-type: none"> <li>▶ the Council's 2017/18 budget and the medium term forecast, assessing the extent of the savings plans in place; and</li> <li>▶ the use of any assumptions used in medium term planning.</li> </ul> <p>The Council's general fund balance as at 31 March 2017 stands at £2.598 million versus a minimum level of £2.5 million. The Council also has earmarked reserves (£15.1 million at 31 March 2017) which have been established for a number of purposes, including the following:</p> <ul style="list-style-type: none"> <li>▶ Strategic Transformation Fund - £1.037 million</li> <li>▶ Commercial Investment Reserve - £3.787 million</li> <li>▶ Special Reserve - £1.3 million</li> <li>▶ Other reserves - £2.631 million</li> </ul> <p>In addition to the above there are also other earmarked reserves for repairs and renewals, collection fund and S106 monies.</p> <p>The existence of these reserves provides evidence of the Council's prudent approach to financial management. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council plans to maintain this level of General Fund reserves indefinitely and we note that the projected general fund reserves in the MTFS does not fall below the target level over the next 3 years.</p> <p>The 2017/18 budget is balanced, through the use of efficiencies, income plans, but also the use of general fund reserves. The level of savings identified is £0.7 million and the budget also includes £1m in relation to investment income through the Commercial Investment Strategy. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.</p> <p>We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential settlement.</p> <p>Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.</p>



# Value for Money

## What is the VfM area for review?

### Commercial Investment Strategy

During the year the council have purchased two properties, totalling £9.187 million. These relate to Shawlands Retail Park in Sudbury, Suffolk (£6.874m) and an office block at Wilbury Way, Hitchin (£2.313m). These purchases have been financed by use of an Earmarked General Fund reserve.

## Arrangements this impacts?

- Taking informed decisions
- Deploying resources in a sustainable manner

## What are our findings?

As the Council's commercial investment strategy grows and pressures on the funding continue it is important that the Council invests its money in ways that maximise returns and are within the powers the Council is afforded.

During our audit we have held discussions with management and also obtained the Cabinet reports supporting the decision to purchase the properties during the year. We noted that these had been subject to due diligence and comparison of expected yields to those minimum levels set by the Council.

We noted that the Council prepared a best, worst and expected scenarios for the expected returns and often built in a more pessimistic view when calculating these.

We have reviewed the Council's legal view on the use of powers contained in section 12 of the LG Act 2003.

Having considered the above, and in the absence of any case law in relation to this we are not minded to challenge the Value for Money in relation to the two properties above.



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## Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Huntingdonshire District Council Statement of Accounts for the year ending 31 March 2017 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Our findings are:

- ▶ Financial information within the Annual Report and published with the financial statements was consistent with the Annual Accounts.
- ▶ The remuneration and staff report was prepared correctly, subject to the minor matters we have reported above.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information that we are aware of from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We can confirm that the Council is below the threshold for audit review and as such we have not performed any detailed procedures over your WGA submission.



## Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”).

We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no additional matters to report. Difficulties experienced during the course of the audit have been included in section 7.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Assessment of control environment

### Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one significant deficiency and one moderate deficiency as set out below. We have not identified any further significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Observation	Rating
<p><b>Preparation of the financial statements and related working papers</b></p> <p>We have incurred significant delays in the completion of our audit work. We appreciate how the Council’s staff have made time in their days for our audit enquiries, and approached our queries in a helpful and collaborative manner. However, we would note that we encountered the following key difficulties during the audit which we believe had a detrimental effect on our ability to complete this audit efficiently.</p> <p><u>1. Accounting records</u></p> <p>We audited areas where the accounting records which the Council maintains were not sufficient for us to be able to complete our audit in the most efficient manner. This was particularly an issue when auditing creditors and debtors, leases and cash for the Council.</p> <p>In particular:</p> <ul style="list-style-type: none"> <li>a. The working papers for debtors and creditors were not suitable for audit as they included a movement of all transactions during the year rather than just the balances that remained outstanding at the balance sheet date. It took various iterations being reviewed by management and us, in addition to several meetings to eventually generate useable working papers.</li> <li>b. The Council incurred difficulties in mapping the general ledger data to the financial statements and to the categories used in our data analytics tools, being assets, liabilities, income, expenditure and equity. We held a number of meetings with the finance team and reviewed several of iterations of the reconciliation before receiving a final version that could be used for audit. We should note that this still included a difference of £321k that could not be mapped.</li> </ul>	<p><b>Significant</b></p>





# Assessment of Control Environment

- c. Management were unable to provide a cash flow statement which reconciled and took into account only the cash movements in the Council's accounts for the year that was agreeable to underlying records. The versions provided to us included a number of reserve and non-cash movements. Following a number of adjustments the amendments made to try and correct the working papers to the support the cash flow statement then became difficult to audit as shortcuts had been taken in trying to prepare a revised cash flow statement. We spent a considerable amount of time reviewing the versions provided to us before being able to conclude on a final version which is included in the final accounts.

We note that the issues with debtors, creditors and data mapping are consistent with those encountered in the prior year.

## 2. 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. This meant that our staff had often finished their time on site for the audit by the time the information was available. There were some areas of our audit requested in the first two weeks of the audit that were not received until weeks 4 and 5.

## 3. Reliance on key personnel

During our time on site there were often 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.

## 4. Amendments to the financial statements

During the course of the audit a number of audit adjustments and changes were proposed to the financial statements. In many instances it took multiple reviews before the adjustments were posted correctly.

**All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors. We recommend that the Council undertake a thorough review of their processes, procedures and working papers. This is particularly important given the faster close deadline for 2017/18. Due to the above delays we will be seeking to agree a fee for the additional costs incurred.**

## **Related parties**

Our completeness checks on related parties and transactions identified amounts that had not been disclosed.

The council should ensure that they carry out sufficient completeness checks to ensure that all related party transactions are disclosed in the financial statements.

Low






## 08 Appendices



## Appendix A

# Required communications with the Corporate Governance Committee

There are certain communications that we must provide to Audit Committees. We have done this by:

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Terms of engagement	Confirmation by the Corporate governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit that were discussed with management</li> <li>▶ Written representations we have requested</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Huntingdonshire District Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Corporate Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Corporate Governance Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Corporate Governance Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to report.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off”</li> <li>▶ Asking the Corporate Governance Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Corporate Governance Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm's general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p>	<p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	<p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p>
Certification work	Summary of certification work	Certification Report



# Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 22 March 2017.

We complied with the APB Ethical Standards and the requirements of the Public Sector Audit Appointment's (PSAA) Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Corporate Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this.

We confirm we have not undertaken non-audit work outside the PSAA Code requirements.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work (see note 1 and 2)	53,236	53,236	62,235
Certification of claims and returns	17,522	17,522	18,136

**Note 1:** Our prior year fee includes £8,999 for additional fees due to delays experienced in finalising our audit work. This amount has been agreed with PSAA and invoiced to the Council.

**Note 2:** Due to the delays experienced in the current year we will be seeking to agree an additional fee for the time and costs incurred. We will agree this with management and report it to you separately.

We will confirm our final fees following the completion of our audit and non-audit work and report this within our Annual Audit Letter.





## Appendix C

# Accounting and regulatory update



### Accounting update

Since the date of our last report to the Corporate Governance Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Huntingdonshire District Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured</li> <li>▶ How the impairment of financial assets are calculated</li> <li>▶ Financial hedge accounting</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ for local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Disaggregate revenue into appropriate categories</li> <li>▶ Identify relevant performance obligations and allocate income to each</li> <li>▶ Summarise significant judgements</li> </ul>



## Appendix C

Name	Summary of key measures 	Impact on Huntingdonshire District Council 
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of 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.</p>	<p>Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. As set out above we have had difficulties in concluding our audit this year due to the quality and timeliness of working papers and supporting evidence. This presents concerns in relation to the ability of the Council to meet the faster close deadlines for 2017/18.</p> <p>We also note that the Council are undergoing a finance system change which is due to go live in December 2017. It will be important for the Council to ensure that this does not impact on their ability to prepare the audited financial statements and related working papers.</p> <p>We also undertook some early interim testing in March 2017 in relation to income and expenditure testing. However, we will meet with management to discuss others areas that we can complete work on earlier in the process and agree an earlier timetable for delivery.</p>





## Appendix D

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### Request for a Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young LLP  
One Cambridge Business Park  
Cambridge  
CB4 0WZ

#### **Letter of Representation - Huntingdonshire District Council - Audit of Financial Statements 2016/17**

This letter of representations is provided in connection with your audit of the financial statements of Huntingdonshire District Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Huntingdonshire District Council as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.



## Appendix D

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4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 for the Group and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 for the Council that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 13 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services,



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leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

### **F. Subsequent Events**

1. Other than described in Note 6 to the financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

### **G. Expenditure Funding Analysis**

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes has been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

### **H. Going Concern**

1. We have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans

### **I. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance



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sheet(s).

### **J. Reserves**

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### **K. Valuation of Property, Plant and Equipment Assets and Investment Properties**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the valuation of assets appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.
5. We confirm that we have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations, or for those investment properties not revalued at 31 March 2017, and that each asset category is not materially misstated.
6. We confirm that for assets carried at historic cost that no impairment is required

### **L. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### **M. Use of the Work of a Specialist - Pension Liabilities**

1. We agree with the findings of the specialists that we engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### **N. Valuation of Pension Liabilities**



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1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

### **O. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the business rate appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### **Q. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Huntingdonshire District Council Annual Financial Review for the year ending 31 March 2017.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### **R. Long term debtors**

1. We confirm that the amounts included in long term debtors, that include loans provided to other organisations and individuals are full recoverable and are held at the amount the Council expects to receive.

Yours faithfully,

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(Head of Resources (Section 151 Officer))

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(Chair of the Corporate Governance Committee)



## Appendix D

### Appendix: Summary of Uncorrected Misstatements

Account 31 March 2017 (£'000)	Comprehensive income and expenditure statement Debit/(Credit) Current Period	Assets current Debit/(Credit)	Assets non- current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non- current Debit/(Credit)
Errors:					
<i>Being an adjustment to correct for the undercharging of rental income (factual error):</i>					
Dr Debtors Cr Income	(126)	126			
<i>We note that this would also have an impact on the related notes and cash flow statement</i>					
<i>Balance sheet totals</i>			126		
Income effect of uncorrected misstatements	(126)				
Cumulative effect of uncorrected misstatements	(126)		126		

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