



**Huntingdonshire  
District Council  
Audit results report**  
Year ended 31 March 2018

31 July 2018



**EY**

Building a better  
working world



31 July 2018

Dear Corporate Governance Committee Members

We have now completed our audit on Huntingdonshire District Council (the 'Council') for the year ended 31 March 2018.

The statutory deadline for 2017/18 was 31 July 2018. The Council signed the financial statements on 31 July 2018 and 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 Authority, 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

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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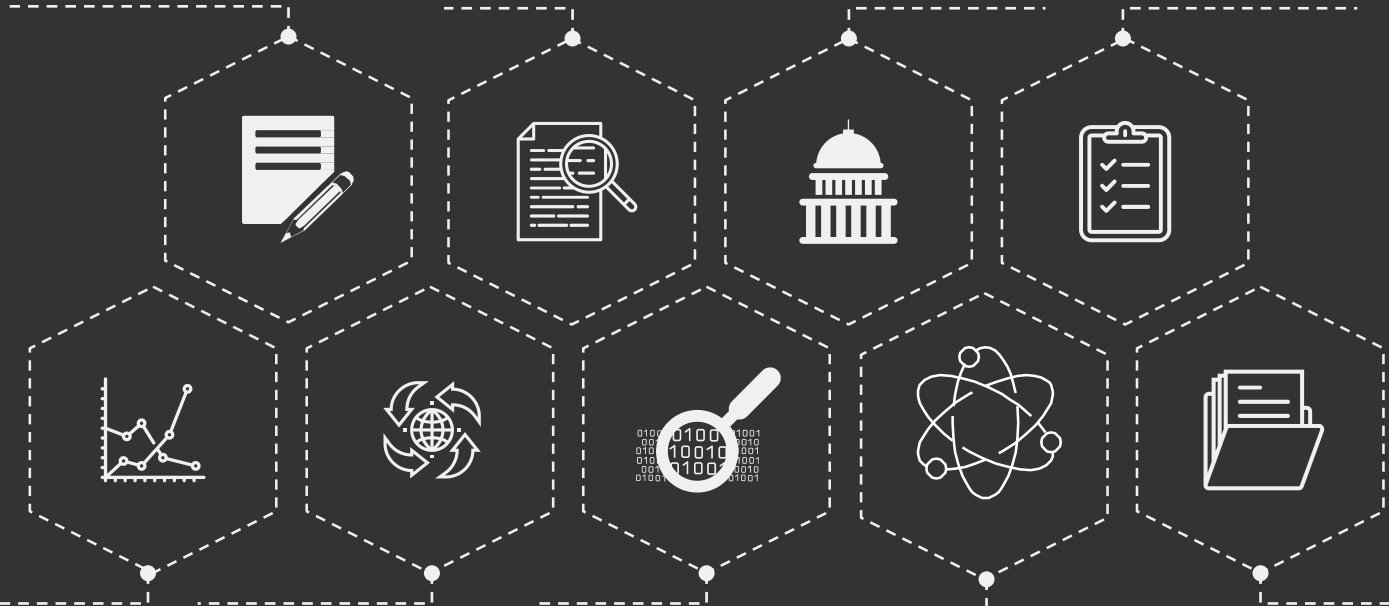
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities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





# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Plan tabled at the 28 March 2018 Corporate Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the statement of accounts. We carried out our audit in accordance with this plan, with the following exception:

- ▶ There have been no changes in our risks assessment, however we have categorised some of the areas we have focussed on during our audit under different risk headings to facilitate with the reporting of the work performed.

- ▶ **Changes in materiality:**

In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £1.808m. We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on net cost of services plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs, we have updated our overall materiality assessment to £1.854m. This results in updated performance materiality, at 75% of overall materiality, of £0.927m, and an updated threshold for reporting misstatements of £0.0927m. There have been no changes in our specific materiality levels. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on net cost of services plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs.

## Status of the audit

As set out in our audit planning report, as your auditor, we have had a more significant peak in our audit work and a shorter period to complete the audit. We agreed a timetable with the Council for our interim audit testing and our year end visit. There has been little room for slippage so we have been monitoring adherence to the timetable, the standard of information, query resolution, the complexity of any matters arising during the audit and any changes to the scope of our work.

We have concluded our audit of the Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan. On 31 July 2018 we issued an unqualified opinion on the Council's financial statements in the form which appears at Section 3, including the audit certificate.

## Audit differences

We have identified five unadjusted audit differences in the draft financial statements. The current aggregated impact of unadjusted audit differences is £0.083 million. Management has not amended these as they do not consider them to be material to the financial statements. These adjustments have been included within the letter of representation.

We have also included details of two corrected audit differences identified during the course of the audit, the details of which can also be found in section 2 of this report. .

Details can be found in Section 4 Audit Differences.

# Executive Summary

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Huntingdonshire District Council's statement of accounts. 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
- ▶ 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.

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your statement of accounts and which is unknown to you.

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have confirmed that the Authority 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 will submit this audit results report to the NAO in line with their requirements.

We have no other matters to report.



## Executive Summary

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### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk that focussed on the impact of additional time and costs incurred by the Council during the accounts and audit process, resulting in a risk that this distracts staff from the ongoing delivery of strategic priorities which should be avoidable with effective planning and resource deployment.

In light of the challenging financial environment we have performed a high level review of the financial resilience of the Authority and considered whether there are any significant issues with the robustness of the medium term financial plans and assumptions. Overall we have concluded that arrangements are appropriate.

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

### Independence

Please refer to Section 9 where we confirm our independence as your appointed auditor.



02

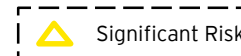
## Areas of Audit Focus





## Areas of Audit Focus

# Significant risk of fraud in expenditure recognition



### Risk of fraud in expenditure recognition through inappropriate capitalisation of expenditure and valuation of NNDR appeals provision

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the 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 the manipulation of expenditure recognition.

The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a surplus of £0.1 million chargeable to the General Fund. As the Authority is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Authority's standard income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme. We will also considered other areas where management can apply judgement and estimation, including the valuation of the NNDR appeals provision.

#### What judgements are we focused on?

In considering this risk we have focussed on management's judgement in capitalising expenditure as PPE. The Authority has a number of capital programmes and therefore judgement can be exercised in the allocation of costs between expenditure charged to the Comprehensive Income and Expenditure Statement (CIES) and capital expenditure.

This judgement impacts the valuation/measurement of the expenditure and also the existence of the asset on the balance sheet and completeness of expenditure included within the Comprehensive Income and Expenditure Statement (CIES).

We have also considered the valuation of the NNDR appeals provision at the year end with a focus on any judgements management have made particularly in relation to expected new provisions arising from the change of rateable values at 1 April 2017.

We have set out the procedures we have undertaken in relation to the above, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

#### What are our conclusions?

Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure.

Overall, we have not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.



## Areas of Audit Focus

# Significant risk of fraud in expenditure recognition



### Further details on procedures/work performed

We have performed the following specific procedures over the identified risk areas:

- ▶ **Capital additions testing** - We selected a sample of capital additions based on our established testing threshold and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature. Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure.
- ▶ **Journal entry testing** - As part of our journal testing we included specific tests to search for unusual activity that moves expenditure from the CIES to PPE on the balance sheet. No unusual activity was identified as part of our review.
- ▶ **NNDR appeals provision** - The provisions balance in the financial statements is £1.6 million at 31 March 2018 (£1.6 million at 31 March 2017). In the current year all of this balances relates to the provision for business rate appeals which the Council is required to estimate and include in the financial statements in accordance with the Code.
- ▶ New rateable values became effective from 1 April 2017, which means that the Council has made a provision for the expected claims arising from this, in addition to reassessing the provision for the 1 April 2010 rateable value listing. 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 new provision on the 1 April 2017 rateable values has been calculated based on the success rate on previous claims. This equates to c4.5%. We note that in order to be materially different the rate will need to move by c4% in either direction to create an error greater than performance materiality. Based on the success rate of claims to date we consider the provision included to be reasonable.

We have not identified any significant issues with the Council's basis of calculation.

#### Other procedures:

As set out in our audit planning report we confirm that we have also performed the following supplementary procedures to gain additional assurances around the recognition of revenue/expenditure recognition:

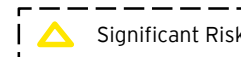
- ▶ Reviewed the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below).
- ▶ Reviewed accounting estimates (e.g. IAS 19 liability, valuation of PPE) for evidence of management bias (see relevant sections below);
- ▶ Performing cut off testing and unrecorded liabilities testing to consider the completeness of assets and liabilities included in the financial statements.
- ▶ Evaluating the business rationale for any significant unusual transactions.

With the exception of the uncorrected adjustments set out in section 4 for unrecorded liabilities we have no matters to report.



## Areas of Audit Focus

# Significant risk – Misstatements due to fraud or error



### Misstatements due to fraud or error

#### What is the risk?

The risk is that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear 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. We have also specifically considered the calculation of statutory reserve adjustments impacting the general fund such as the minimum revenue provision (MRP) and revenue expenditure financed from capital under statute (REFCUS).

Linking to the presumed risk of fraud in revenue and expenditure recognition we have identified the inappropriate capitalisation of expenditure on Property, Plant and Equipment as a risk as well as the valuation of the NNDR appeals provision. This has been identified as a specific risk as set out on the previous page, and therefore we have not repeated that information here.

#### What judgements are we focused on?

In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be the NNDR appeals provision, the valuation of Property and the valuation of pension liabilities.

Due to the significance of PPE and pension valuations on the financial statements we have included them as higher inherent risks in our audit strategy and include a separate section to report on these separately below and not repeated that information here. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting.

The valuation of the NNDR appeals provision has been identified within our expenditure recognition risk as set out on the previous page, and therefore we have not repeated that information here.

We have set out the specific procedures we have undertaken, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

#### 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.

We have not identified any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



## Areas of Audit Focus

# Significant risk – Misstatements due to fraud or error



### Further details on procedures/work performed

#### Journal entry testing

We have tested 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.

In response to our work over statutory adjustments relating to REFCUS and MRP we have included specific journal tests to identify any unusual activity. We have also reviewed and tested the calculation of MRP, as well as the amounts classified as REFCUS in the financial statements.

No issues have been identified in the completion of our audit work.

#### Accounting estimates

We evaluated the remainder of the Authority's estimates, including accruals, deferred liabilities, bad debt provision and depreciation, as low risk of material misstatement. No issues have been identified in the completion of our audit work.

Other procedures – As set out in our audit plan we confirm that we have also performed the following supplementary procedures to gain additional assurances management override of control/misstatements due to fraud or error:

- ▶ Inquiring of management about risks of fraud and the controls put in place to address those risks and understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud, identifying fraud risks during the planning stages and determining an appropriate strategy to address those identified risks of fraud.
- ▶ Reviewing material accounting policies and testing that they have been applied correctly during our detailed testing.
- ▶ Evaluating the business rationale for any significant unusual transactions – none were identified.

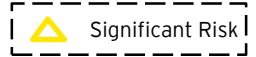
We have no matters to report in relation to the above.





## Areas of Audit Focus

# Significant risk – Investment property



### Valuation of investment property item

#### What is the risk?

The fair value of 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.

There is one IP asset with a net book value of £5 million (£7 million as at 31 March 2017) representing c.14% of the IP portfolio which has been identified as requiring extensive repair and renovation. The quantum of work has been estimated at £2 million and has been taken into account when calculating the £5 million. This adds an additional layer of complexity to the valuation approach and as a result there is a risk that the financial statements could be materially misstated at year-end.

The overall valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain and we have covered this further in the valuation of capital assets section below.

#### What judgements are we focused on?

We have focused on the following areas, which are consistent with those of management:

- ▶ The reasonableness of the underlying assumptions used by the Authority's valuation expert.
- ▶ Ensuring the information supplied to the valuer in relation to the Authority was complete and accurate.
- ▶ Checking the reasonableness of the estimated remediation works that have been deducted from the valuation.

#### What did we do?

- ▶ Considered the work performed by the Council's valuer, including the judgements and assumptions made in assessing the impact the capital works have on the property's value.
- ▶ Engage an EY estates specialist to consider the valuation of the property to ensure that the asset has been materially stated; and
- ▶ Test the base data used in performing the valuation (e.g. floor plans, structural repairs works schedules and costings).

A summary of the work performed is included on the following page.

#### What are our conclusions?

Our testing has not identified any material misstatements from the valuation of this asset.

Assumptions used by the valuer and adopted by the Council are considered to be generally acceptable.

No other issues have been identified in completing our work.



## Areas of Audit Focus

# Significant risk - Investment property



### Further details on procedures/work performed

We have undertaken the following procedures:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Engaged our internal valuation specialists to assess the work of the valuer and the methodology applied.
- ▶ In relation to the costs deducted from the valuation, these are based on an estimate of the cost of the works required following receipts of the structural engineers report. A number of assumptions have been made in the calculation of these. We note that the overarching approach has been to utilise the original build costs from when the property was constructed in 2004-2006 and then allocate a share of the costs based on the percentage of the area impacted within the building. We have reviewed the methodology and undertaken work to verify the original costs, the assumptions made by the Council's expert and the relevant floor plans. We have also verified the scope of works back to the structural engineers report.

In undertaking our work we have not identified any significant issues but bring to your attention the following matters:

1. No issues were identified in relation to the valuers approach to valuing the property. We note that our specialists estimated the value of the property to be in the region of £4.9 million to £6.1 million, meaning that the value assigned of £5 million was within the range, albeit at the lower end.
2. The £2 million costs deducted from the value of the property are not based on recent construction costs and include a high number of assumptions. The costs do not take into account inflation, however we note that this would not be significant to the total costs. We have performed sensitivity over the costs and note that they would need to be incorrect by up to 47% in either direction to result in a material misstatement.

Having considered the results of our procedures and the information available, we consider that the building has been materially valued at the balance sheet date. However, we have included a specific representation on the completeness and accuracy of the costs within the letter of representation.



## Areas of Audit Focus

### Other areas of audit focus - Valuation of capital assets

#### What is the risk and what judgements are we focused on?

Property, Plant and Equipment (PPE) and investment properties (IP) represent significant balances in the Authority'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 for land and buildings in particular. The Authority will engage external expert valuers who will apply a number of complex assumptions to these assets. Annually, assets are assessed to identify whether there is any indication of impairment.

As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. 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. 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.

#### What did we do?

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans).
- ▶ Considered 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.
- ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct.
- ▶ Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the Cambridge 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.
- ▶ Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

#### What are our conclusions?

Whilst we have not identified any instances of inappropriate judgements being applied we have identified a number of discrepancies in the following two areas:

1. One incorrect use of base data by the valuer in their calculations. The impact of this error is an increase to the property value of £133k. Having undertaken some additional work we have considered the impact of the error on the remaining population and have included an extrapolated error of £457k, along with the £133k above, in section 4.

2. A number of variances between the fixed asset register and valuers report totalling £170k have been identified and included in section 4.

Assumptions used by the valuer and adopted by the Council are considered to be generally acceptable.

No other issues have been identified in completing our work.



## Areas of Audit Focus

### Other areas of audit focus - Pension valuations and disclosures

#### What is the risk?

The Local Council Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £74 million (£72 million at 31 March 2017).

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. 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.

#### What judgements are we focused on?

We have focused on the following areas, which are consistent with those of management:

- ▶ The reasonableness of the underlying assumptions used by the Authority's expert - Hymans Robertson.
- ▶ Ensuring the information supplied to the actuary in relation to the Authority was complete and accurate
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

#### What did we do?

We have liaised with the auditors of, Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire District Council.

We have assessed 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. 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.

We have reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19 - no issues have been noted.

#### What are our conclusions?

In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017.

The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 is £2,958 million. When compared to the actuaries estimate of the fund assets at 31 March 2018 of £2,891 million this creates a judgemental difference of £67 million.

Management has obtained a revised IAS19 report from the actuary and has provided a working paper which shows an adjustment of £1.9 million reduction in the net liability. Management has amended the financial statements.

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.

No other issues have been identified in completing our work.





# Areas of Audit Focus



## Other matters

### Donated asset

Included in the draft financial statements was a donated asset of £860k, which also impacted grant income and revenue expenditure funded from capital under statute (REFCUS). On review of the transaction we identified that this related to the transfer for one of the Council's assets, plus a £300k grant, to another local authority in exchange for one of their assets. The decision to undertake the transaction was approved by the Overview and Scrutiny Committee in November 2016.

The treatment adopted in the financial statements treats each of the elements of the transaction separately, however, as they are linked to one another the treatment set out in the Code on exchange of assets should have been applied. This has resulted in a net reduction to the surplus/deficit on the provision of services of £560k.

Management has agreed with the revised treatment and has made the appropriate adjustments to the financial statements. This has included the following correcting double entry:

Dr CIES - Taxation and non-specific grant income	£860k	
Cr CIES - net cost of services		(£300k)
Dr Movement in Reserves Statement	£560k	
Cr Capital Adjustment Account		(£560k)
Cr Revaluation reserve		(£560k)



## Other matters

### Implementation of IFRS 15:

The 2018/19 Code confirms that IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations, with implementation from 1 April 2018. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. adopts IFRS15 without adaptation. The scope includes:

- ▶ all contracts with customers except leases, financial instruments and insurance contracts; and
- ▶ excludes Council Tax and NDR income

Given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Council. However, the Authority is yet to carry out a review of contract income from service recipients to assess the potential impact.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of Huntingdonshire District Council for the year ended 31 March 2018 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 relates notes 1 to 39 to the accounts,
- ▶ and the 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 2017/18.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Huntingdonshire District Council as at 31 March 2018 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 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Huntingdonshire District Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Head of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Head of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the Annual Financial Report set out on pages 4 to 21, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### *Arrangements to secure economy, efficiency and effectiveness in the use of resources*

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2018.

#### 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 Council;

- ▶ 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

#### Responsibility of the Head of Resources

As explained more fully in the Statement of the Head of Resource's Responsibilities set out on page 25, 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### *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 2017, 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 2018.

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.

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.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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.

#### 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.

#### Use of our report

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 Huntingdonshire District Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

Date:

The maintenance and integrity of 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.



04

# Audit Differences



# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 adjusted differences

We have identified a number of misstatements greater than £0.9m. Five of these remain uncorrected and are included on the next page, and have been included in the letter of representation.

We have also identified two errors that have been corrected by management that we consider warrant notifying to you.

### 1. Pension adjustment

In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017. The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 is £2,958 million. When compared to the actuaries estimate of the fund assets at 31 March 2018 of £2,891 million this creates a judgemental difference of £67 million. Management has obtained a revised IAS19 report from the actuary and has provided a working paper which shows an adjustment of £1.9 million reduction in the net liability. This has resulted in the following adjustment:

Dr Pension liability	£1,865k	
Cr Actuarial gains and losses		(£1,865k)
Dr Pension reserve	£1,865k	
Cr Movement in reserves		(£1,865k)

### 2. Donated asset

As set out in section 2, the Council undertook an exchange of assets with another Council during the year. The treatment adopted was not in line with the Code and resulted in the following adjustments that have been corrected by management:


Dr CIES - Taxation and non-specific grant income	£860k	
Cr CIES - net cost of services		(£300k)
Dr Movement in Reserves Statement	£560k	
Cr Capital Adjustment Account		(£560k)
Cr Revaluation reserve		(£560k)



# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Corporate Governance Committee and provided within the Letter of Representation:

<b>Uncorrected misstatements</b> <b>31 March 2018 (£000)</b> 	<b>Comprehensive income and expenditure statement</b> <b>Debit/(Credit)</b>	<b>Assets current</b> <b>Debit/</b> <b>(Credit)</b>	<b>Assets non-current</b> <b>Debit/</b> <b>(Credit)</b>	<b>Liabilities current</b> <b>Debit/</b> <b>(Credit)</b>	<b>Liabilities non-current</b> <b>Debit/</b> <b>(Credit)</b>
<b>Known differences:</b>					
1. Error arising from incorrect use of rent for property valuations: Dr Investment property Cr Movement in fair value	(133)		133		
2. Discrepancies between the fixed asset register and valuers report: Dr Investment property Cr Movement in fair value	(170)		170		
<b>Judgemental differences:</b>					
3. Extrapolated error arising from incorrect use of rent for property valuations (actual error £133k as set out above): Dr Investment property Cr Movement in fair value	(457)		457		
4. Identification of an unrecorded liability where the invoice was received post year end: Dr Expenditure Cr Creditors	551			(551)	
Balance sheet totals		0	760	(551)	0
Income effect of uncorrected misstatements (before tax)	(209)				
5. Turnaround effect. See Note 1 below. Dr Income Cr Debtors	126	(126)			
<b>Cumulative effect of uncorrected misstatements, after turnaround effect</b>	<b>(83)</b>	<b>(126)</b>	<b>760</b>	<b>(551)</b>	<b>0</b>



## Audit Differences

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### Uncorrected misstatements in the statement of cash flows

All misstatements will have an impact on the cash flow statement.

### Uncorrected disclosure misstatements

There are no uncorrected disclosure items to report to you.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period. In the prior year we identified an adjustment where rental income had been undercharged in 2016/17. Where this has been charged in 2017/18 we have included the reversal of the impact in our summary of uncorrected items.





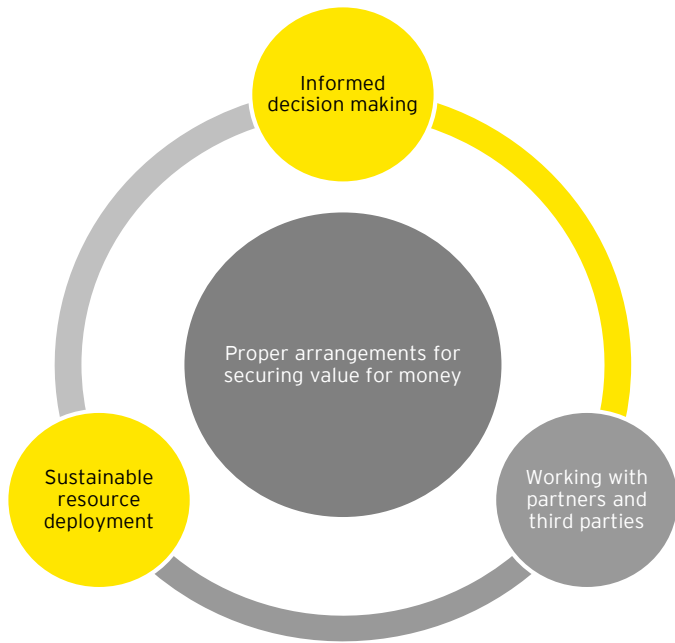
05

# Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We are only required to determine whether there are any risks 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 one significant risk around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whilst they are not significant risks we have also set out our high level considerations of the Council's financial resilience and considered the purchase of an out of area property during the year.



## Value for Money Risks

### What is the significant value for money risk?

In the prior year we experienced significant difficulties in completing our audit. This included the adequacy of working papers and their reconciliation to the financial statements, the timeliness of deliverables and responses to auditor queries, over reliance on key individuals, and a number of adjustments being amended in the financial statements.

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.

Following the prior year audit there have then been changes in the finance team resulting in a strain on resources and work on areas such as the budget. An interim Chief Accountant has recently been engaged to manage the finance team and lead on the preparation of the 2017/18 financial statements.

The faster close timetable in 2017/18, as well as the pressure of implementing a new finance system ready for 2018/19 will put considerable strain on the finance team's ability to deliver conflicting priorities.

Whilst our risk assessment for the financial statements audit has not identified a heightened risk in any particular area, we do consider that there is a risk to demonstrating that there have been effective arrangements in place to demonstrate the Council has planned, organised and developed the workforce (namely the finance team) to deliver the financial statements. The additional time and costs incurred by the Council during the accounts and audit process, risks distracting staff from the ongoing delivery of strategic priorities and should be avoidable with effective planning and resource deployment.

The risks to not being able to prepare and sign off on the financial results for the year also raises risks around the Council's ability to take informed decisions, where decisions are made on draft information which is then subject to significant amendment.

### What arrangements did the risk affect?

Take informed decisions / Deploy resources in a sustainable manner

### What are our findings?

Our approach has focussed on the following:

- ▶ Reviewing the changes made to the financial reporting process to address the issues identified in the prior year;
- ▶ Reviewing the accounts closedown timetable, including the timescales for the preparation of the financial statements and supporting working papers ready for audit;
- ▶ Considering the Council's allocation of tasks to individuals in the finance team for both preparation and review to ensure these are reasonable;
- ▶ Assessing the results of the interim audit for improvements in the process;
- ▶ Considering the adequacy of the draft financial statements and working papers, as well as the finance teams ability to respond to additional queries in a timely manner;
- ▶ Consider the overall accounts and audit experience as we complete the audit, seeking validation that changes have been made to address the issues identified in the prior year;
- ▶ Reviewing internal audit reports to identify any significant issues identified during finance related reviews and consider the impact on the overall control environment;
- ▶ Reviewing the monitoring of the significant findings arising from our audit in 2016/17 as part of the Corporate Governance Committee; and
- ▶ Testing for any significant impact resource capacity has had on the Council's in year financial reporting and budget setting. This will include comparing forecast vs actual outturns, assessing appropriate segregation of duties in the preparation and review/sign off of quarterly reporting and budget setting during 2017/18. We will also assess the appropriateness of significant assumptions used in the budget setting process for appropriateness.

In undertaking our procedures we have not identified any significant issues. We acknowledge that there has been resource dedicated to rectifying prior year issues and that this has resulted in a number of the prior year issues being resolved. At the same time as preparing for the accounts and audit process the finance team have also managed the migration to a new finance system.

We have provided an update on the prior year control finding in section 7.

## Value for Money Considerations – Financial resilience

### What are our findings?

The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a small surplus of £0.1 million chargeable to the General Fund as set out in the Movement in Reserves Statement. To date the Council has responded well to the financial pressure it faces.

The Council's general fund balance as at 31 March 2018 stands at £2.658 million which is in line with the minimum level set by the Section 151 officer. The Council also has earmarked reserves (£16 million at 31 March 2018) which have been established for a number of purposes, including a Strategic Transformation Fund (£0.07 million), Commercial Investment Reserve (£3.598 million), Special Reserve (£1 million), Budget surplus reserve (£2.212 million) and other reserves (£2.123 million). In addition to the above there are also other earmarked reserves for repairs and renewals, collection fund and S106 monies.

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. The Authority plans to maintain this level of General Fund reserves over the medium term by making contributions to it from the budget surplus reserve.

The 2018/19 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 to date gives confidence that it can continue to do so. However, this will become harder over time, and therefore the council must ensure that it continues to ensure it identifies ways to be self financing over the longer term.

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.

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.



# Value for Money Considerations – Commercial investment

### What are our findings?

The Council has been actively pursuing its commercial investment strategy over the past few years, and 2017/18 has included the purchase of an additional out of area property.

As government funding continues to come under pressure, the reliance on commercial revenue streams becomes heightened. The nature of commercialisation exposes to the Council to additional risks around property values, achievement of investment yields and more volatility in the preparation of budgets.

Where the Council is borrowing to invest in its strategy it is also important the Council considers all costs associated with the related investment, to confirm that the overall net return is consistent with the assumptions being included in the medium term financial strategy.

As part of our audit procedures we have:

- ▶ Reviewed the decision making process for the acquisition of the out of area property purchased during the financial year, including any associated due diligence, and at a high level the factors taken into account in calculating the investment yield. 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.
- ▶ Reviewed the assumptions on commercialisation included in the 2017/18 budget and compare these against the actuals achieved, seeking explanation for any significant variance.
- ▶ Reviewed the process for ongoing monitoring and reporting of the commercial investment strategy.
- ▶ Reviewed the assumptions included in the medium term financial strategy and consider them for appropriateness.
- ▶ Considered any recent case law and how the Council has taken this into account when reviewing their commercial investment strategy.

During our review we identified that as part of the purchase of the property the Council was required to invest in two companies responsible for the management of the site. Whilst the shareholding is not material to the Council, there is no evidence to demonstrate that the Council's investment in these two entities was considered as part of the decision making process. We would expect matters such as these to be fully considered as part of the governance process to mitigate any risks to the Council in the future. We do not consider this to be a significant value for money matter.

Having considered the above, and in the absence of any case law in relation to this in the financial year ended 31<sup>st</sup> March 2018 we are not minded to challenge the Council's arrangements. We do note that the Council will, as part of its capital strategy and financial plans, continue to consider its options on future commercial investments and in doing so intends to apply the same due diligence it has undertaken to date and seek further independent legal, tax and professional services advice as necessary. This is an area in which we will continue to review the Council's decision making process and will form part of our 2018-2019 external audit plan.





# 06 Other reporting issues





## 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 2018 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:

- ▶ We have finalised our work over the financial information in the Huntingdonshire District Council Statement of Accounts for the year ending 31 March 2018 and published with the financial statements. We have no other matters to report.
- ▶ We have reviewed the Annual Governance Statement and can confirm it is consistent with other information 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 have confirmed that the Authority 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 will submit this audit results report to the NAO in line with their requirements.

### 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 Authority 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 Authority, 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 reporting 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 Authority'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; and
- ▶ Consideration of laws and regulations.

We have no matters to report.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority 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 Authority 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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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 not identified any 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. We have provided an update on the significant deficiency identified in the prior year on the following page.

# Assessment of Control Environment

## Description

### Preparation of the financial statements and related working papers

We have incurred 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 difficulties during the audit which we believe had a detrimental effect on our ability to complete this audit efficiently.

1. Accounting records : We audited areas where the accounting records which the Council maintains were not initially 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. In particular:

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.

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.

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.

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.

## Update

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

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

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

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

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

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





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Journal Entry Analysis

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

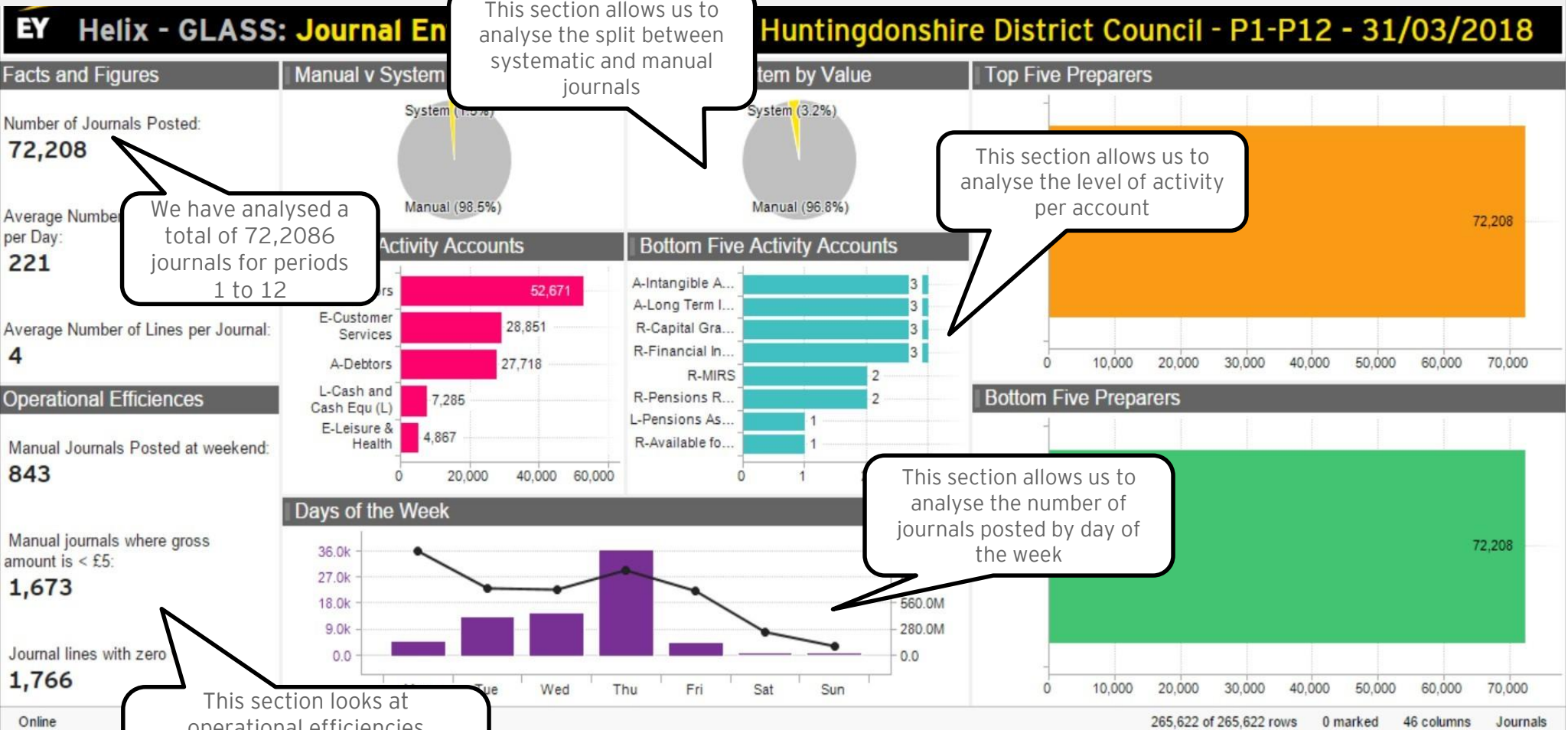
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions. The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





## Journal Entry Testing

### Journal entry observations

In performing audit procedures responding to the risk of management override, we use data analysis tools to review the use of journals within the financial ledger. As part of performing these procedures we make the following observations:



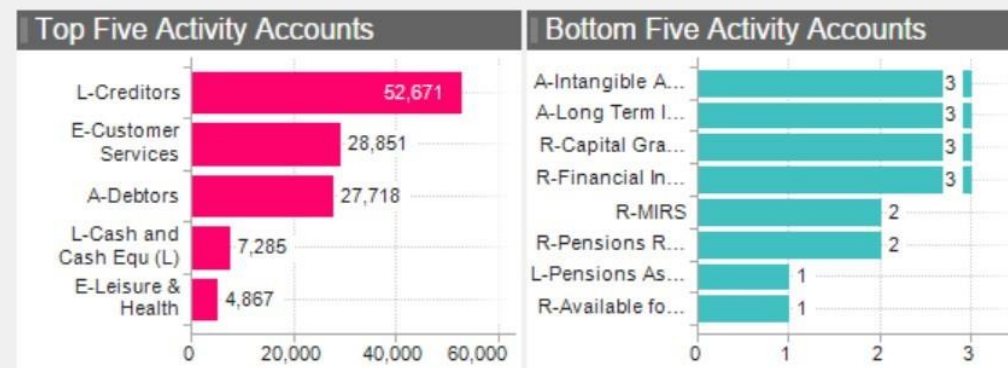
The top graphic shows that the Council posts a very high number of manual journals which is outside of what we would expect. Having investigated this we understand that this is because many journals require some form of manual intervention prior to the journals being posted.

Operational Efficiencies	Facts and Figures
Manual Journals Posted at weekend: <b>843</b>	Number of Journals Posted: <b>72,208</b>
Manual journals where gross amount is < £5: <b>1,673</b>	Average Number of Journals Posted per Day: <b>221</b>
Journal lines with zero value: <b>1,766</b>	Average Number of Lines per Journal: <b>4</b>

We also note, in the middle graphic, that the Council has posted 1,766 journal lines with a nil value and 1,673 journals where the amounts are less than £5.

Combined these identify some potential inefficiencies in the journal process. However, we note that the new finance system went live on 1 July 2018 and is expected to deliver efficiencies to the Council.

As such, it may be that the matters identified here do not recur.



This graphic shows the top five and lowest five accounts by activity. We have reviewed this and note that it is consistent with our expectations. The highest account relates to creditors and correlates to the second and fourth highest accounts which are expenditure. We can then see that the third and fifth highest accounts relate to debtors and cash, which is also consistent with our expectations.

The accounts with the least amount of activity are all associated with accounts primarily used during the financial statements process.





09

Independence

## Independence

### Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 14 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's 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 at the meeting of the Corporate Governance Committee on 26 July 2018.

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### **Services provided by Ernst & Young**

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included above.

We confirm that none of the services has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

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

	Final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£	£
PSAA scale fee - Code work*	53,236	53,236	53,236	53,236
Prior year overrun	N/A	N/A	N/A	22,603
Impact of lower materiality thresholds	10,000 - 12,000	8,000 - 12,000	N/A	N/A
Investment property significant risk	3,000 - 4,500	2,500 - 3,000	N/A	N/A
Value for Money significant risk	2,000 - 3,500	2,000 - 3,500	N/A	N/A
<b>Total audit</b>	<b>68,236 - 73,236</b>	<b>65,736 - 71,736</b>		<b>75,839</b>
Other non-audit services not covered above (Housing Benefits)	18,136	18,136	18,136	17,522
<b>Total other non-audit services</b>	<b>18,136</b>	<b>18,136</b>	<b>18,136</b>	<b>17,522</b>
<b>Total fees</b>	<b>86,372 - 91,372</b>	<b>83,872 - 89,872</b>	<b>71,372</b>	<b>93,361</b>

All scale fee variations will be subject to agreement with the PSAA.

\*As set out in section 7 of this report we have experienced some delays in finalising our audit work. We will therefore discuss with management any expected additional fees arising from this and will report these to you once agreed.

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to:

1. The impact of being required to undertake our audit to a lower materiality level as a result of the findings arising from the prior year audit. The lower threshold against which our audit procedures are to be performed means that additional audit testing will be required. This also decreases our threshold for investigating variances where we performed procedures such as substantive analytical review.
2. The additional work required as a result of the increase risk associated with investment properties, primarily relating to the use of EY specialist to provide assurance over the valuation of one particular asset. Details of this can be seen in section 2.
3. The work required to address the significant value for money risk set out in section 6.

We are not yet in a position to give a definitive view on the final audit fee to address the extent of work required but will agree this with management in due course and provide you with updates accordingly.

All scale fee variations will be subject to agreement with the PSAA.







A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 10 Appendices

## Appendix A

# Required communications with the Corporate Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
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.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - 28 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - 28 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report - 26 July 2018
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>▶ Material misstatements corrected by management</li> </ul>	Audit results report - 26 July 2018
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Corporate Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	No matters have been identified.

# Appendix A




		Our Reporting to you
Required communications	What is reported?	When and where
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.
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Corporate Governance Committee responsibility.</li> </ul>	Audit results report - 26 July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of 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 about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report - 28 March 2018 and Audit results report - 26 July 2018

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when 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 regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report - 26 July 2018
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to raise in this regard.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance Committee may be aware of</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.
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>	Audit results report - 26 July 2018



# Appendix A

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report - 26 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report - 26 July 2018
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - 26 July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Planning Report - 28 March 2018 and Audit results report - 26 July 2018
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report

## Appendix B

# Management representation letter

### Management Rep Letter

To be prepared on the entity's letterhead]

[Date]

Ernst & Young LLP

One Cambridge Business Park

Cambridge

CB4 0WZ

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 2018. 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 Council financial position of Huntingdonshire District Council as of 31 March 2018 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 2017/18.

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**

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 2017/18.

We acknowledge, as members of management of the Council, 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 2017/18. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has 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 2017/18, that are free from material misstatement, whether due to fraud or error.

## Appendix B

# Management representation letter

### Management Rep Letter

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because they are not considered to be material to the financial statement either quantitatively or qualitatively.

#### **B. Non-compliance with law and regulations, including fraud**

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

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.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- ▶ involving financial statements;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

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.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

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: 26 July 2018.

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, 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.

 **Appendix B**

# Management representation letter

## Management Rep Letter

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

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.

### **D. Liabilities and Contingencies**

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.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm that there are no guarantees given to third parties to disclose in the council financial statements.

### **E. Subsequent Events**

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.

### **F. Other information**

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Financial Report on pages 4 to 22 and 25 to 26.

We confirm that the content contained within the other information is consistent with the financial statements.

### **G. Going Concern**

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.

### **H. Use of the Work of a Specialist - Property, plant and equipment**

We agree with the findings of the specialists that we engaged to evaluate the Valuation of Property Plant and Equipment and Investment Properties and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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.



# Management representation letter

## Management Rep Letter

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

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates 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 2017/18.

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.

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 2017/18.

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.

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 for property, plant and equipment, or for those investment properties not revalued at 31 March 2018, and that they are not materially misstated.

We confirm that for assets carried at historic cost that no impairment is required

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

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 consolidated and council 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.

### **K. Valuation of Pension Liabilities**

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate 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 2017/18.

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.

We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

# Management representation letter

## Management Rep Letter

### **M. Ownership of Assets**

Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheets, 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 sheets.

### **N. Reserves**

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

### **O. Valuation of NNDR appeals provision**

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate 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 2017/18.

We confirm that the significant assumptions used in making the NNDR appeals provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate is complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

### **P. Retirement benefits**

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.

### **Q. Oak Tree Health Centre**

We confirm that the valuation of the Oak Tree Health Centre represents the assets fair value as at 31 March 2018.

The costs of £2 million deducted from the value of the asset represent the amount we expect to pay to rectify the matters set out in the structural engineers report, and are materially correct.

Yours faithfully,

\_\_\_\_\_  
Head of Resources (Chief Financial Officer)

\_\_\_\_\_  
Chairman of the Corporate Governance Committee

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