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Government and Public Sector *Appendix A*

Huntingdonshire District Council

Report to those charged with governance (ISA 260 (UK&I))

2010/11 Audit

December 2011

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Corporate Governance Panel
Huntingdonshire District Council
Pathfinder House
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Huntingdon
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29 November 2011

Dear Sirs

We are pleased to enclose our report to the Corporate Governance Panel in respect of our audit of Huntingdonshire District Council ("the Council") for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Corporate Governance Panel in February 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in the section 'Audit Approach' on page 6.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are detailed on page 10. We will provide an oral update on these matters at the meeting on 7 December 2011.

We look forward to discussing our report with you on 7 December 2011. Ciaran Mclaughlin and Hayley Clark from PwC will be attending the meeting.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

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

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Huntingdonshire District Council ('the Council'). As agreed with you, we consider that "those charged with governance", at the Council, are the Corporate Governance Panel.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you in February 2011. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work and which are included in this report:

- Preparation of IFRS based financial statements;
- Quality of working papers provided to audit; and
- Capital accounting.

We will discuss the matters contained within this letter with the Corporate Governance Panel on 7 December 2011.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our work.

Audit approach

Our audit scope and approach was set out in our 2010/11 audit plan. We have set out below the key audit risks identified within the audit plan together with our comments on the results of the work performed.

Risks	Audit approach
Significant Risks	
Revenue and expenditure recognition We are required by International Standards on Auditing (ISAs) to specifically consider the risk of material misstatement in relation to revenue and expenditure recognition. There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported income and expenditure position. Due to their nature, we do not consider the receipt of council tax, national non domestic rates or revenue support grant to be a significant risk and these income streams will therefore be excluded from this category.	We have understood and evaluated controls relating to income and expenditure recognition and have examined the selection and application of the Council's accounting policies and focussed our work on the risk of material misstatement of those components of income and expenditure which involve management estimation. We have carried out cut off testing on income and expenditure at year end to ensure that expenditure has been recorded in the correct financial year. Our work on income and expenditure recognition has not identified any material misstatements. Identified misstatements are listed in Appendix 1. We have also carried out the required certification work in respect of the Housing and Council Tax Benefit Subsidy for the year. No material misstatement was identified from this work. Full details of the findings from this work will be reported in our Certification Report in February 2012.
Management Override of Control The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the 2010/11 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.	We have reviewed the appropriateness of journals processed during and at the end of the year. We did not identify any exceptions in the completion of this work. We have reviewed the reasonableness of management estimations and considered if they may be subject to bias, taking account of the new Clarity ISA requirements on estimates. We have tested the proper cut-off of transactions at the year end. Please refer to details of management estimates reviewed in the section "Significant audit and accounting matters". Our work on income and expenditure recognition, which also provides assurance in relation to management override of control, has not identified any material misstatements. Identified misstatements are listed in Appendix 1.

2010/11 – first year of reporting under IFRS The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Council Accounting. In particular: **Leases** IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately. **Component Accounting** The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently broken down into their component parts, there is a risk that depreciation charges might be materially understated. **Accruals for Employee Benefits** The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.	Our audit work in this area has involved: • Understanding the Council's approach to restating prior year balances to accounting under an IFRS basis; • Testing significant restatements made on transition from UK Generally Accepted Accounting Practice (UK GAAP) to accounting under IFRS; and • Reviewing the Council's accounts against the disclosure checklist. • Having an independent 'hot review' of the accounts. Management has encountered difficulties in restating the financial statements and our audit work in this area has resulted in a number of adjustments to the financial statements, of a numeric, presentational and disclosure nature. We have performed detailed testing to establish the completeness of the work performed including a review of minutes and significant contracts. We have also performed testing of classification and accounting entries. Leases We have understood and evaluated the accounting policies adopted by the Council for leases against the Code requirements. We have performed testing to establish the completeness of leases and lease type arrangements including minute review and review of contracts. We have also performed testing of lease classification and accounting entries. Our work has resulted in adjustments to the financial statements. At the date of writing this report we are still in the process of agreeing these with management. Component Accounting We have performed testing around component depreciation and the employee benefit accrual calculations, considering the methods used to calculate the accounting entries and ensuring that these were in line with Code guidance. We have not identified any material misstatement in our review of this work. Other In addition to the above we also identified that the Council had incorrectly classified an asset valued at £250k as held for sale at 31 March 2010, although the criteria for recognition had not been met. This was corrected and included as property, plant and equipment on the balance sheet at 31 March 2010.
Property, Plant and Equipment The accounting for property, plant and equipment is complex and can often result is various aspects of the financial statements being misstated due to the entries required under capital accounting. We understand that this has previously been an area of audit focus. In particular: **Valuations**	We have experienced considerable difficulties in auditing the Council's work on property, plant and equipment. The key issues have been summarised below: Valuations We have considered the Council's arrangements for the valuation of property , plant and equipment to ensure that:

Valuations may have not been performed on a systematic basis meaning that some assets may not have been included within the scope of previous reviews. In relation to the Council's five leisure centres in particular: - Errors were noted in the completeness, consistency and comparability of both the professional valuations and the Council's own adjustments resulting in the accounting entries being reversed from the financial statements. - Instructions to the valuer resulted in a different methodology being used to value land and buildings when compared to previous reviews, making the information incomparable. This also resulted in components of assets not being included in the review. There is a risk that valuations may not be performed correctly resulting in the carrying values in the financial statements being materially misstated. **Depreciation:** We are aware that accounting entries for the difference in historic cost depreciation and carrying value depreciation for revalued assets have not been processed since the opening of the revaluation reserve and capital adjustment account in 2007/08. There is a risk that these reserves and the depreciation charges in the comprehensive income and expenditure statement may be materially misstated.	- the valuer has been given appropriate instructions in order to undertake the review; - all relevant assets have been included in the scope of the review; - accounting entries have been undertaken correctly within the financial statements Although the Council encountered some difficulties in obtaining the correct information from the valuers, we concluded that the values attributed to the Council's land and buildings are not materially misstated. Further information has been provided within our review of accounting estimates. We have identified several issues with the accounting entries for revaluations and impairments. We are still in the process of working through the required adjustments with management. Depreciation/Amortisation We have identified several issues in relation to depreciation/amortisation including: • Inconsistent use of useful economic lives. • Inconsistent application of depreciation/amortisation policy to additions and disposals. • Incorrect calculation of the difference in historic cost depreciation and carrying value depreciation for revalued assets. The results of our audit work have resulted in several adjustments to the financial statements.
Elevated Risks	
Payroll Review of the internal audit reports on payroll has identified that there are significant control deficiencies in the design and operation of payroll controls particularly in relation to starters and leavers. This increases the inherent risk surrounding the appropriate processing of staff costs and the completeness of staff establishment.	We have performed detailed testing on payroll costs to ensure that the figures included in the accounts are not materially misstated. Our audit work has not identified any material misstatement.
VfM Conclusion related risks	
Increased pressures on budgets Local government bodies are expected to make significant efficiency savings over the next three years as a result of the Comprehensive Spending Review 2010 and the local government financial settlement. There is a risk that savings plans may not be robust or based on sustainable solutions which could result in short term actions to ensure that spending targets are met. In addition, it will be important for councils to be able to demonstrate that they are allocating resources to areas of priority within their tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Our audit work has included: • Evaluating the Council's budget monitoring processes and in-year reporting to the Cabinet; • Undertaking testing on cut-off procedures and unrecorded liabilities at the year end to ensure all significant transactions are appropriately recognised and recorded in the correct period; and • Consulting with officers regarding the savings efficiency plans in place and considering the arrangements in place to make these plans robust. We are also required, where a significant matter not

There is a risk that the Council will not be able to demonstrate its achievements in this area.	relevant to the specific vfm criteria but relating to the scope of proper arrangements as set out in the Audit Commission's Code of Audit Practice comes to our attention to consider whether to include a report by exception after the vfm conclusion. We have considered such a matter in respect of the delay in publishing the Council's financial accounts. We have provided our conclusions on this work on page 15.

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- Receipt of revised working papers on capital and reserves to assist in the completion of our audit work;
- Receipt of final cash flow statement and related notes for PwC review;
- Receipt of revised financial statements incorporating all audit adjustments and disclosure requirements;
- PwC review of the final financial statements and completion of internal quality control procedures;
- Approval of the financial statements and letter of representation;
- Completion procedures including subsequent events review;
- Receipt of whole of government accounts; and
- PwC review of whole of government accounts.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

We will update the Corporate Governance Panel on the status of this work at the meeting on 7 December 2011.

Accounting issues

We are required to report to you our view on significant qualitative aspects of the Council's accounting practices, including its accounting policies, accounting estimates and financial statement disclosures. We identified the following matters during the course of our audit work:

Preparation of IFRS based financial statements

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the "Code") requires that the Council's accounts be produced in accordance with International Financial Reporting Standards (IFRS). 2010/11 is the first year in which the Council has been required to produce IFRS compliant accounts and up to two prior year comparative information as well. This is one of the most fundamental changes to financial reporting that impacts Local Government accounting in recent memory.

Following discussions with management following our appointment as external auditors we performed early audit work in February and March 2011 on the restatement of the prior year comparative information. At that time the evidence available to support the Council's work to date on the IFRS conversion was not sufficient to enable us to carry out detailed audit procedures. We provided an assessment focussing on the key areas of the conversion and discussed this with Management in April 2011 who continued to work on the transition process.

We continued our work on the IFRS restatement as part of our 2010/11 final audit, starting in July 2011. We encountered difficulties when reviewing the Council's work particularly in relation to leases which have resulted in significant additional work by management. This is explained in more detail in the section on leases, below.

In addition to the above a number of additional disclosures or amendments to existing disclosures have been required. As we finalise our work we expect there to be further disclosure changes to the accounts to ensure compliance with the Code.

Preparation of the financial statements

The Authority met the 30 June 2011 statutory deadline to produce a draft set of financial statements, which given the additional work required this year, was an achievement. However, the authority was not able to provide us with a comprehensive set of supporting working papers at the start of our audit. There are a number of reasons for this including:

- The Council's capital accountant was absent on the grounds of ill health, and other finance staff had difficulty interpreting and understanding elements of capital accounting and capital financing information.

- The Council underestimated the level of resource required to do the IFRS restatements and produce the 2010/11 financial statements and the restated 2009/10 and 2008/09 information.

- As new auditors it was always expected that we would not have the same degree of knowledge of the specific circumstances of the Council as an incumbent, however, the Council underestimated the number of questions and supporting information that we would require to support the accounts.

This has had a knock on effect of our audit, resulting in working papers that did not agree to the accounts and significant gaps in the information provided to us, predominately in relation to capital accounting.
During the audit the finance team has on occasion, struggled to provide sufficient relevant and reliable information to us in respect of the Council's leases, capital accounting and other elements of the accounts.

These issues have resulted in significant delays in issuing the financial statements and consequently the completion of the audit.

As of 28 November 2011 we are still waiting on information from the Council to enable us to complete our audit. We will provide a full verbal update to the Panel when we meet with you on 7 December 2011.

Leases

Our work on the Council's lease arrangements identified that while management had reviewed a proportion of their operating and finance leases they had not sufficiently documented the work to demonstrate compliance with the criteria set out in the Code. In some cases arrangements had not been reviewed at all resulting in the Council obtaining additional resource to complete this task in relation to lessor leases.

We also identified that the Council's accounts contain leases with head and sub leases arrangements. Within the first draft of the accounts these leases had been valued by the external valuer at less than £10k and as such they were being recognised in the Council's accounts as operating leases. The Code specifies that leases of this type can only be netted off where the conditions of the leases are identical. Review of the lease contracts identified that this is not the case and as such the head lease and sub leases should be considered separately. The Council has undertaken further work to restate the financial statements to show the head leases as finance leases. This has resulted in changes to the financial statements which are shown in Appendix 1.

Capital Accounting

In performing our audit work on capital accounting we have encountered significant issues which have caused delays in the preparation and finalisation of the financial statements. We have included the most significant issues below:

Depreciation

We have undertaken our review of depreciation and amortisation charges as part of the work performed on accounting estimates, as documented below. In addition, we identified as part of our early review of the financial statements in March 2011 that the Council has not been undertaking accounting entries for the difference in historic cost depreciation and carrying value depreciation for revalued assets since the opening of the revaluation reserve and capital adjustment account in 2007/08. Our initial review of this calculation for the current prior years identified that this had not been performed correctly in the draft financial statements. We are currently re-reviewing the Council's revised calculations for this. On initial review we have identified that the adjustment between reserves has been amended as follows:

- 31 March 2010 – original transfer between the general fund and the revaluation reserves was £1,434k. This has been revised to £235k.
- 31 March 2011 – original transfer between the general fund and the revaluation reserves was -£55k. This has been revised to £309k.

Revaluations and impairments
Our review of the financial statements identified that the Council has not undertaken appropriate accounting entries on revaluation of assets. At the date of writing this report we are currently undertaking our review of the revised entries with the Council.

Leisure Centres
Our review of leases identified that the five leisure centres included on the Council's balance sheet are held under management agreements. These agreements indicate that the assets are jointly controlled assets between the Council and Cambridgeshire County Council.

The Council has prepared an assessment of the proportion of the assets attributable to the County Council based on capital investment in the assets since they were built. At the date of writing this report management were still in the process of making the necessary adjustments to the financial statements.

Initial calculations expect this to impact the cost of the assets on the balance sheet by decreasing their value by approximately £1.5 million - £2 million (£19.8 million total assets).

Other adjustments
Our audit work also identified some other less significant issues within capital, such as:

- Assets disposed of in previous years not removed from the asset register;
- Incorrect classification of assets between property, plant and equipment, intangible assets, assets held for sale and investment properties; and
- Inconsistent application of depreciation to additions and disposals.

We will provide Management with the details behind these issues as part of our Report to Management to enable them to consider what if any changes to systems and processes are required.

Misstatements and significant audit adjustments
We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are described in Appendix 1 to this report.

We also bring to your attention the misstatements set out in Appendix 1 to this report which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies
Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Corporate Governance Panel to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

Judgments and accounting estimates

The clarity ISAs (International Standards on Auditing), applicable for the first time this year, introduced an increased emphasis on what auditors need to do on accounting estimates. For each estimate we need to assess the level of risk that they may be misstated and tailor our audit procedures to address the risk, depending on the nature of the estimate. The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- ***Estimated economic useful lives of property, plant and equipment assets:*** At the date of writing this report we are still in the process of undertaking our audit work on depreciation. We have performed our initial assessment on the Council's useful economic lives and have discussed them with management but have not completed our work on this area. We have not identified any significant issues at this stage which we would like to bring to your attention.

- ***Estimated economic useful lives of intangible assets:*** Our review of amortisation identified that useful economic lives in relation to intangible assets were inappropriately applied resulting in a decrease in the amortisation charged in the comprehensive income and expenditure account and an increase in the net book value of the assets on the balance sheet. The value of this adjustment was £253k.

- ***Calculation of pension fund assets and liability*:** Management has utilised the information provided from the actuary which is the fundamental basis of this estimation. We have performed additional work to ensure accurate disclosure within the Financial Statements, the fundamental assumptions are reasonable and the asset allocation is reasonable. We are satisfied that the estimation is reasonable within the Financial Statements.

- ***Classification of leases as operating or finance leases*:** We have reviewed the procedures management has used to determine the type of leases they have. Having considered the issues noted above which have been rectified by the Council we are satisfied that there are no material classification errors in the disclosure of leases.

- ***Valuation and impairment of property, plant and equipment*:** The Council's accounting policy, consistent with the requirements of the Code of practice on Local Authority Accounting, is for property, plant and equipment (PPE) to be included in the financial statements at current fair value. The Council achieves this by arranging for periodic, professional valuations at least every five years and in the intervening years has regard to the movement in property prices and any other factors that may indicate a significant difference between values in the financial statements and current values indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

  In accordance with its accounting policy, the Council has revalued a proportion of its PPE assets in accordance with its cyclical programme. For assets not valued during 2010/11, a review of fair values as at 1 April 2011 has resulted in no changes to property valuations being processed within the 2010/11 financial statements. In estimating the fair value to be included in the 2010/11 financial statements, management has utilised the expertise of an external valuer.

  In response to the requirements of the International Standards on Auditing, we have reviewed the methodology used by management and engaged our internal valuation team to:

  - Review the assumptions applied in forming the valuation in the 2010/11 financial statements;
  - Assess whether the valuation method is consistent with the Code requirements; and
  - Confirm that the external valuers have the appropriate qualifications for completing the valuations.

  Based on the work we have undertaken, we have no issues to raise in this report in this regard.

- ***Valuation and impairment of investment property*:** The Code of practice on Local Authority Accounting requires the use of the fair value model for investment properties. The fair value must reflect market conditions at the balance sheet date and thus annual revaluations are necessary unless the Council can demonstrate that the carrying value is not materially different from the fair value at that date. We identified that the Council has not undertaken an exercise to determine the fair value at the balance sheet date at 31 March 2010 or 31 March 2011. Management has subsequently undertaken this exercise using current market trends. We have confirmed that these are appropriate through consultation with our internal valuation experts. The results of this work resulted in an increase to the investment property values of £1,039k at 31 March 2010 and £569k at 31 March 2011. We recommend that management ensures this exercise is undertaken by a professionally qualified individual on an annual basis.

- ***Component Accounting:*** The Council is applying component accounting for depreciation prospectively from 1 April 2010. As a result, the Council must depreciate significant components of assets separately when:
  - Significant asset acquisitions are made;
  - Significant enhancement expenditure is incurred on existing assets; or
  - Assets are revalued during the year.

  The Council's policy is to apply component accounting to assets with a value over £100k which have significant components greater than 10% of the cost of the asset. In estimating the significance of components and therefore depreciation for the year, the Council has utilised the expertise of its external valuers to determine whether components are significant in relation to the cost of the whole asset.

  We identified that all applicable assets above the threshold have been appropriately componentised with the exception of Pathfinder House. The impact on depreciation if this asset had been depreciated in line with component accounting is £65k. This is below the de minimis threshold for recording uncorrected misstatements and as such we recommend that the Council ensure this is appropriately applied in future years.

- ***Provision for bad debts:*** The Council has recognised a provision for bad debts within the financial statements against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances. We have assessed the reasonableness of this provision and have identified no issues. As part of this review we identified £300k of debts greater than 5 years old. Although these debts have been 90% provided for we recommend that the Council considers writing these debts out of the Council's ledger completely.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 2.

Financial standing

No issues in relation to financial standing arose from the 2010/11 audit.

Audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Accounting systems and systems of internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

Our work does not constitute a full test of the controls and is not designed to identify all deficiencies or issues that may exist. It should be noted that the responsibility for controls assurance rests with those charged with governance.

As part of our audit we have considered the findings of internal audit's work during the year to inform our assessment of the risks of misstatement in the financial statements. There are no issues noted in forming this assessment.

In the audit plan we planned to adopt a top-down, controls-based approach to the audit. This involved understanding and evaluating the controls used by management to ascertain how much assurance we can draw from them.

We have reported all significant matters identified during the course of our audit work in the main body of this report. We will shortly write to management setting out internal control deficiencies identified for consideration.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS is published alongside the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We have discussed the delay in the production of the financial statements with management and are awaiting a final version of the AGS to report our work.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Subject to the satisfactory completion of our audit work we expect to issue an unqualified value for money conclusion.

Notwithstanding this, the Audit Commission's guidance also requires auditors to report by exception on any other significant additional matters that come to our attention which we consider to be relevant to proper arrangements to secure economy efficiency and effectiveness in the use of resources.

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.

We have set out in the preceding sections the details of the delays encountered in the accounts production process which has resulted in the Council not being able to produce a robust set of financial statements in accordance with the statutory timetable. We therefore propose to include a report be exception following our vfm conclusion for 2010/11 to confirm that we have identified significant weaknesses in the Council's arrangements for ensuring reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people, as a result of the delay.

Risk of fraud

We discussed with the Corporate Governance Panel their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Corporate Governance Panel we seek members' confirmation that there have been no changes to their view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation (see Appendix 2).

Accounting developments

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

Appendices

Summary of uncorrected misstatements

We identified several errors during the course of our audit. The majority of these relate to capital accounting and we are still in the process of agreeing the adjustment with management. We identified minimal amendments to the financial statements for non-capital items.

One uncorrected misstatement was identified during the course of the audit for non-capital items. As part of our audit work on expenditure cut off we identified expenditure totalling £5k that had not been correctly accrued at the year end. When extrapolated over the untested population this resulted in a projected error of £276k, resulting in a total extrapolated error of £281k. We do not expect management to adjust for this error.

We will continue to review the capital adjustments and will prepare a separate schedule for any unadjusted or individually material items once this work has been finalised.

Letter of representation

To be prepared on the Council's letterhead and to be dated on the same date that the accounts are approved and signed by the Council.

PricewaterhouseCoopers LLP
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Castle Park
Cambridge
CB3 0AN

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Huntingdonshire District Council (the "Council") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Managing Director of Resources for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Council. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Huntingdonshire District Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter.
- The restatement made to correct a material misstatement in the prior period financial statements that affects the comparative information has been appropriately accounted for and disclosed in accordance with

the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Council's auditors) are aware of that information.

- I have provided you with:
  - Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Council, Cabinet and Corporate Governance Panel and relevant management meetings;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

- So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- I 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.

- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

  – Management;
  – Employees who have significant roles in internal control; or
  – Others where the fraud could have a material effect on the financial statements.

- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Councils financial statements communicated by employees, former employees, analysts, regulators or others.

- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council conducts its business and which are central to the Council’s ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that we have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that the Council has made you aware of all employee benefit schemes in which employees of the Council participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2011, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2011 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Council, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Pension fund registered status

I confirm that the Cambridgeshire County Council Local Government Pension Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Accounting estimates

The Council has recognised the following accounting estimates in the financial statements:

- Provision for bad debts;
- Valuation of property, plant and equipment and investment properties;
- Component accounting;
- Classification of leases;
- Estimated useful economic lives of property, plant and equipment and intangible assets; and
- Calculation of the pension scheme assets and liabilities.

Regarding the above accounting estimates:

- The Council has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Additional written representations about the Statement of Accounts

The selection and application of accounting policies are appropriate.

- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;

- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Using the work of experts

The Council makes use of the following experts in preparing its financial statements:

- Barker Storey Matthews for the valuation of property, plant and equipment; and
- Hymans Robertson, actuary to the Local Government Pension Scheme;

I agree with the findings of the experts shown above in evaluating the valuation of properties and the pension scheme and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Leases

- 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- I have disclosed all material agreements that have been undertaken by the Council in carrying on its business.

Assets and liabilities

- The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Council has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the financial statements.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

Retirement benefits

- All retirement benefits that the Council is committed to providing, including any arrangements that are statutory, contractual or implicit in the Council's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities as detailed within the pension fund section of the financial statements are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

  Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss.

Transactions with members/officers

- Except as disclosed in the financial statements, no transactions involving members, officers and others requiring disclosure in the financial statements under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom have been entered into.

Items specific to Local Government

- The Council does not have plans to implement any redundancy/early retirement programmes other than those disclosed in the financial statements for which we should have made provision in the financial statements.
- The Council has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- The Council has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Corporate Governance Panel at its meeting on 7 December 2011

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Managing Director of Resources

For and on behalf of Huntingdonshire District Council

Date ……………………