

East Hertfordshire District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (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 23 February 2017)” issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to East Hertfordshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you [have/have not] put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 29 September 2017

In January 2018 we will also issue a report to those charged with governance of the Council summarising the claims certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Performance, Audit and Governance Scrutiny Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office scene. On the left, a green plant is partially visible. In the center, a laptop screen displays a financial chart. In the foreground, there are several glasses of water on a wooden desk, along with some papers and a calculator. The overall lighting is bright and natural.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 September 2017.

Our detailed findings were reported to the 26 September 2017 Performance, Audit and Governance Scrutiny Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting</p>	<p>We obtained a full list of journals posted to the general ledger during the year, 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.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. Our work on the property valuations focused on verifying and critically challenging the basis of valuation adopted by the valuer in relation to the Council's property, in particular for specialist assets which are valued on a depreciated replacement costs basis. We engaged our Internal specialists to review a sample of assets and gained sufficient assurance that the values reported in the financial statements were not materially misstated.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p>

<p>requirements to be capitalised.</p>	<p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Valuation of Property Assets – Old River Lane</p> <p>Valuation of property assets is a significant accounting estimate that has a material impact on the financial statements.</p> <p>The Old River Lane site was purchased by the Council during 2015 and classified as an investment asset in the Council's 2015/16 accounts. The Council is continuing to develop its proposals for the use of this site and this is likely to result in changes in the classification and valuation of the asset in 2016/17. Due to the material nature of the asset, small changes in assumptions when valuing the asset could have a material impact on the Council's financial statements.</p>	<p>To address this risk we completed a number of procedures including:</p> <ul style="list-style-type: none"> Assessing the accounting classification of the Old River Lane site, the resulting valuation basis applied to the assets Confirmed the PPE and Investment Property valuations which included non-material a decrease of investment property value and a non-material increase in the PPE balance during 2016/17. Assessing the work of the property valuation specialists commissioned by the Council to value the Old River Lane Site to determine whether we could place reliance on their work. We concluded that we could place reliance on their valuations for this asset. Reviewing and testing the accounting entries and disclosures made within the financial statements in relation to any revaluations or impairments. No issues have been identified in reviewing this accounting treatment. <p>As a result of the procedures we completed we were satisfied that the Old River Lane site is valued on an appropriate basis and the values in the accounts are not materially misstated.</p>

Other Key Findings	Conclusion
<p>Valuations – reliance on experts</p> <p>We identified two areas in our Audit Plan where</p>	<p>Pensions: We have assessed and are satisfied with the competency and objectivity of the Council actuaries: Hymans Robertson LLP. Our own pensions team and PwC (Consulting</p>

we place reliance on experts; pensions and property valuations. These areas are both highly material balances in the Council's accounts which are based on estimates and professional judgement.

In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area.

Actuary to the NAO) have reviewed the work of the actuaries and conclude we can place reliance on them. We also challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Property valuations: We are satisfied that the Council's valuers, Wilks Head & Eve, have the necessary qualifications and experience. We engaged our internal valuation specialist to review and critically challenge the basis and method of valuation adopted for a sample of assets, including particularly specialised assets which are valued on a depreciated replacement costs basis which is a more judgemental valuation basis. We have concluded that there are elements of the Specialist's approach to valuation which are formulaic and are not consistent with UK valuation practice, given the characteristics of the properties being valued and considering the facts and circumstances at the valuation date. For the sample of properties we reviewed, we have however concluded that, despite these issues, the values appear to be in a reasonable range albeit at the upper end. We have considered the potential impact of these issues on the remainder of the Council's property, plant and equipment balance and have concluded that the overall valuation estimate is not unreasonable.

Financial statement presentation - CIES and EFA

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

As a result of these changes, the service analysis should be based on the organisational structure under which the Council operates. This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

Our testing focussed on:

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

We have not identified any material misstatements from our work on the CIES and Expenditure and Funding Analysis. The disclosures are compliant with the Code of Practice and reflect the Council's organisational structure.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined materiality to be £1.531 million (2016: £1.743 million), which is 2% of gross expenditure reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Performance, Audit and Governance Scrutiny Committee that we would report to the Committee all uncorrected audit differences in excess of £0.076 million (2016: £0.087 million)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:
- Related party transactions;
- Member's allowances.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of old, worn metal coins. The coins are stacked haphazardly, with some showing their edges and others their faces. The edges of the coins are inscribed with various letters and numbers, including 'L', 'W', 'Y', 'F', 'I', 'M', 'C', 'Y', 'F', 'I', 'C', 'E', 'F', 'I', 'C', 'E', 'F', 'I', 'C', 'E'. The coins have a textured, metallic appearance with some discoloration and wear. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

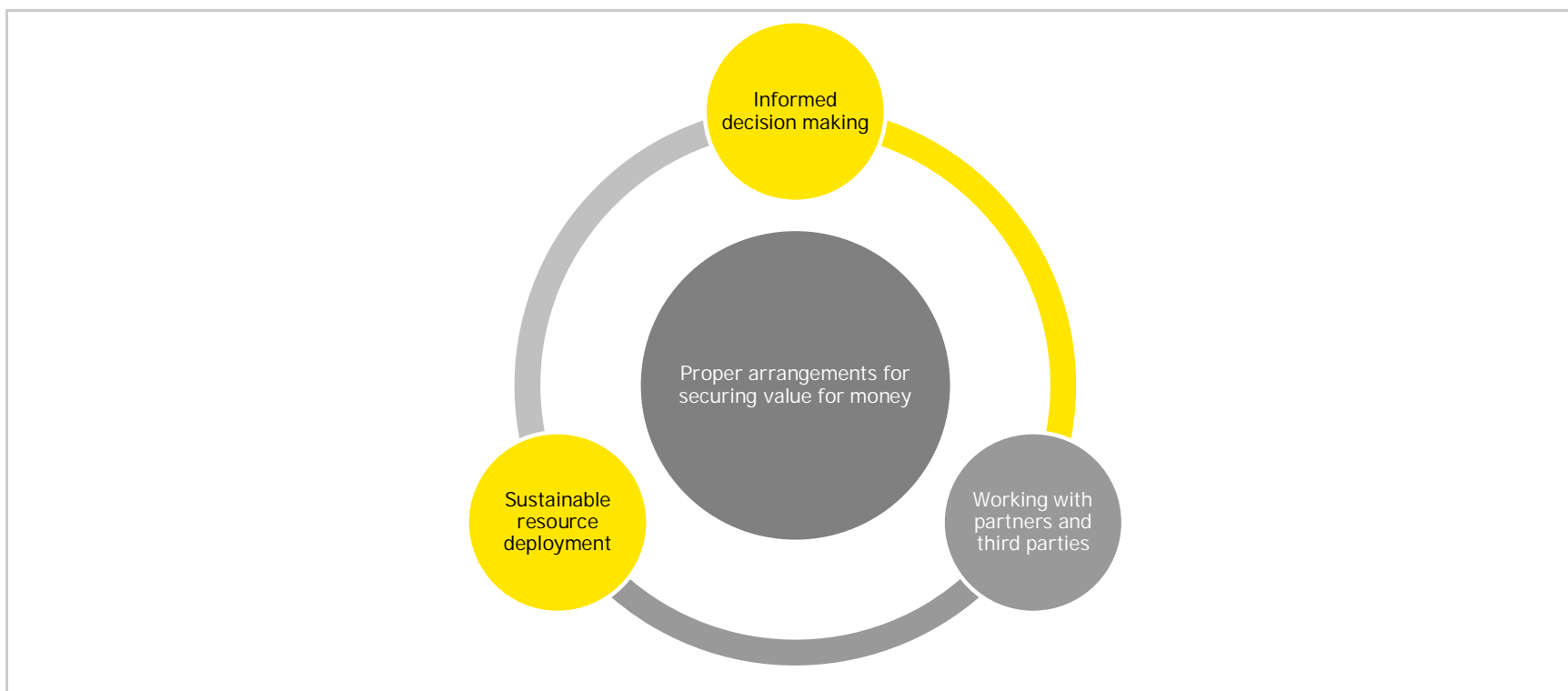
Value for Money

Value for Money

We are required to consider whether the Council 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.

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.



We identified one significant risk in relation to these arrangements, relating to the development of Old River Lane. The table below presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 29 September 2017.

Significant Risk	Conclusion
<p>Informed decision making and partnership working: Development of Old River Lane</p> <p>The Council purchased Old River Lane for investment purposes during 2015/16. This is a substantial asset and the purchase of such a significant investment asset is outside the Council's normal course of business.</p> <p>The development of the site is therefore significant project for the Council which presents challenges in terms of governance, financial and risk management as well as partnership working.</p> <p>Plans for the site are continuing to be developed, and decisions that the Council is making now, will impact on revenue and capital costs relating to the project, in current as well as future years.</p>	<p>We have assessed the arrangements in place supporting the development of the site, focusing on:</p> <ul style="list-style-type: none">• Gaining an understanding of the plans for Old River Lane development• Assessing the governance and financial and risk management arrangements in place to support key decision making• Understanding the financial implications of the project and the key decisions being made, including the linkage between the capital programme and revenue budgeting• Understanding how the Council is working with other bodies and partners in relation to the project <p>We have not identified any issues in the review of the arrangements in place for developing the site. We will continue to review the progress of the development as decisions are made about its future as part of our 2017/18 audit.</p>



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Performance, Audit and Governance Scrutiny Committee on 26 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Performance, Audit and Governance Scrutiny Committee.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars to their eyes. The person's face is blurred in the background. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From next year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>Over the coming months, the Council needs to review its processes for responding to audit queries and establish the key contacts for the audit process, we'll be happy to engage in this discussion.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 • Invited clients to a Faster Close workshop <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure • Establishing and agreeing working materiality amounts for the accounts closure process.

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 22 March 2017 Audit Plan.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	To be confirmed	52,331	52,331	53,102
Total Audit Fee – Certification of claims and returns	To be confirmed	5,955	5,955	8,316

In 2015/16 an additional fee of £771 was charged in respect work required in response to the significant risks identified in relation to our value for money conclusion on 2015/16.

During 2016/17 we have proposed an additional fee in respect of additional procedures relating to property, plant and equipment and investment property valuations and additional costs incurred in completing our audit due to some delays in receiving responses to audit queries. We are currently finalising the value of this with management. This will also need to be agreed with PSAA.

We have not yet completed our audit of the 2016/17 housing subsidy claim and therefore are not able to confirm the final fee for 2016/17.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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