



Audit Plan

East Herts District Council

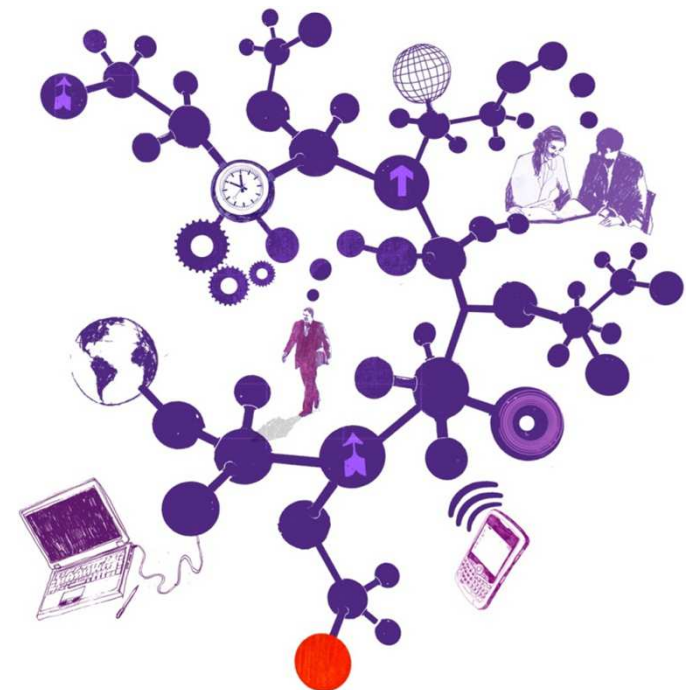
Year ended 31 March 2013

April 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial Performance pressures

- Your financial performance is good but is subject to continuing financial pressure with the delivery of £389k of savings required during 2013/14
- Financial pressure will continue over the medium term with an on-going requirement to make further savings to enable a balanced budget to be set
- You must continue to align your finances closely with agreed priorities if you are to meet the financial challenges ahead while maintaining the quality of services

2. Expenses for members

- You are currently in the process of regularising Members' expenses payments and allowances following an objection to the 2011/12 accounts which was upheld. We made recommendations to address the situation and improve your processes in determining the objection.
- You provided a response to the auditor recommendations at the Audit Committee on 13 March 2013 detailing the planned processes for regularising expenses payments and the recovery of monies paid inappropriately

3. Shared Services

- You are progressing the business case for additional shared services with Stevenage Borough Council. This is planned to cover:
 - IT
 - Print & Design
 - Business Improvement

4. Government Legislation

- Local Government Finance Settlement 2012/13
- Welfare Reform Act 2012



Our response

- We have kept financial performance under continuous review throughout the year through discussions with key officers alongside consideration of your regular financial monitoring reports
- We will review progress made on achieving saving plans as part of our work to inform our VFM conclusion

- We will follow up the progress made in regularising expenses payments and in the recovery of previous unlawful payments as part of our 2012/13 Value for Money review

- We will consider any progress made with the business case, including consideration of the controls and processes followed to assess whether there are any significant weaknesses in the financial governance of the shared service function

- We will discuss the impact of the legislative changes with you through our regular meetings with senior management and those charged with governance, providing a view where appropriate
- We will review how you have managed the changes arising from the localisation of Business Rates and welfare reforms in your short and medium term planning

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- Recognition of grant conditions and income
- Accounting for property, plant & equipment

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Pensions

- Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS).

4. Liability in respect of Municipal Mutual Insurance Ltd (MMI)

- A court case in March 2012 ruled MMI has a liability for additional claims for infections by asbestosis based on the date of exposure rather than the date of onset of illness. If a Scheme of Arrangement that is in place is triggered, you will have a potential liability under this

5. Other requirements

- You are required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion.
- You complete grant claims and returns on which audit certification is required.

Our response

We will assess whether

- You comply with the requirements of the CIPFA Code of Practice through our substantive testing
- Grant income is recognised in line with the correct accounting standard
- Valuations have been completed in accordance with relevant IFRS, based on appropriate methods and assumptions using suitable data and assumptions

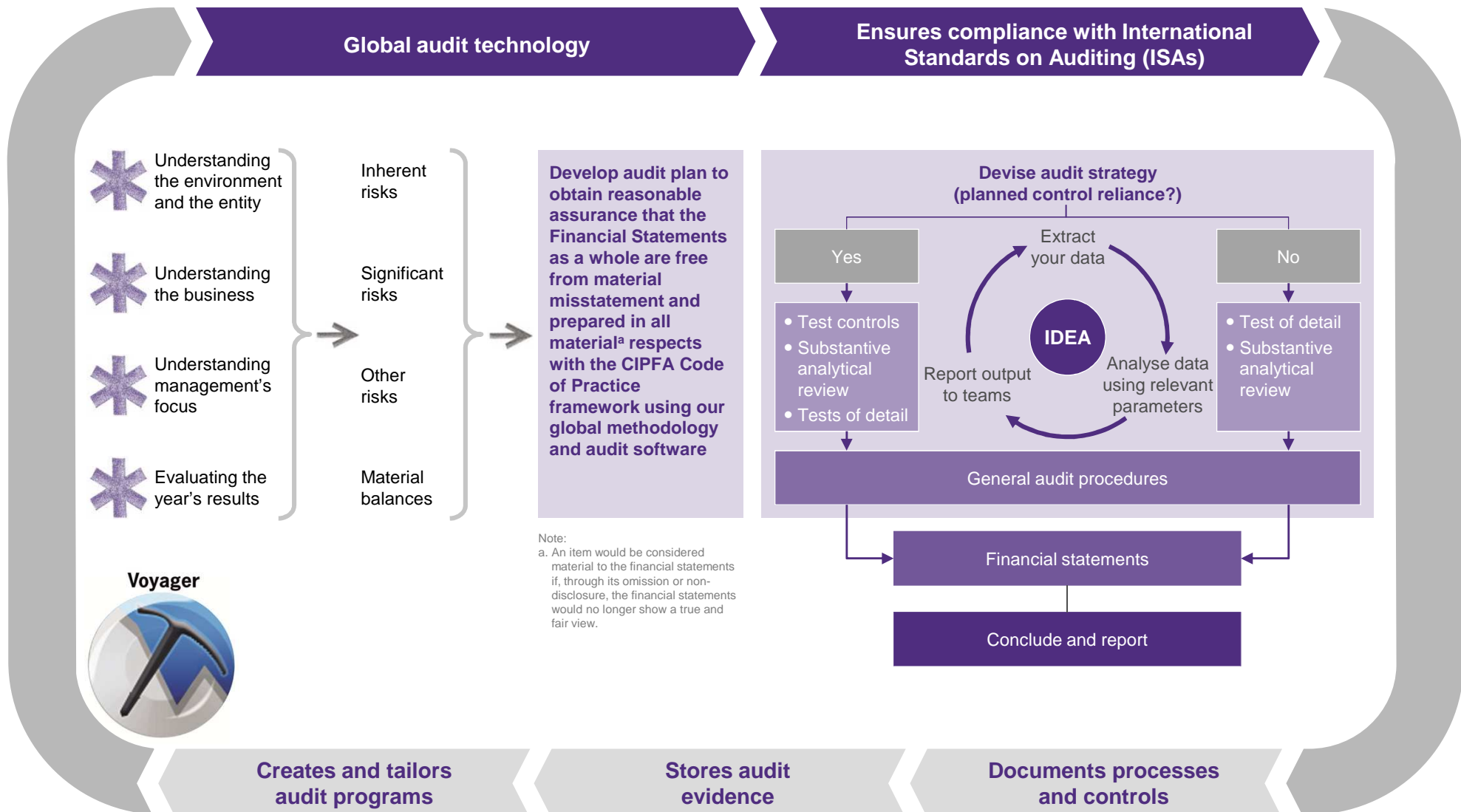
- We will review the arrangements you have in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge
- We will explore suggestions around how you may wish to continue to develop these documents in line with further emerging best practice

- We will discuss how you are planning to deal with the impact of the 2013/14 changes through our meetings with senior management.

- We will review the estimates and judgements made by management and the adequacy of any provision in light of most recent information available at the time of the accounts audit

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify grant claims and returns in accordance with Audit Commission requirements.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls Testing?	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Low	None		×	✓
Cost of services - operating expenses	Yes	Property, Plant and Equipment	Low	None		×	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration accruals understated	×	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	×	✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		×	✓
Precepts and Levies	No	Council Tax	Low	None		×	×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		×	✓
Pension Interest cost	Yes	Employee remuneration	Low	None		×	✓
Interest & investment income	Yes	Investments	Low	None		×	✓
Return on Pension assets	Yes	Employee remuneration	Low	None		×	✓
Impairment of investments	No	Investments	Low	None		×	×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×	×
Income from council tax	Yes	Council Tax	Low	None		×	✓
NNDR Distribution	Yes	NNDR	Low	None		×	✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		×	✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		×	✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		×	✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		×	✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×	×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		×	✓
Heritage assets & Investment property	No	Property, Plant & Equipment	Low	None		×	×
Intangible assets	No	Intangible assets	Low	None		×	×
Investments (long & short term)	Yes	Investments	Low	None		×	✓
Debtors (long & short term)	Yes	Revenue	Low	None		×	✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×	×
Inventories	No	Inventories	Low	None		×	×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		×	✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		×	✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓	✓
Provisions (long & short term)	Yes	Provision	Low	None		×	✓
Pension liability	Yes	Employee remuneration	Low	None		×	✓
Reserves	Yes	Equity	Low	None		×	✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks not specific to you but which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below. These do not feature in the table above as they relate to more than one area of the your accounts.

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Performance of testing on material revenue streams
Management override of controls	Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none">• Testing of journal entries (Months 1-11)• Review of unusual significant transactions (Months 1-11) Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries (Month 12)• Review of unusual significant transactions (Month 12)

Other Risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Trade and other payables	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified with the specific system controls or processes 	<ul style="list-style-type: none"> Through the use of attribute testing across the year we will test a sample of invoices to gain assurance that expenditure has occurred and has been correctly classified We will identify and review large and unusual items
Employee remuneration	Employee remuneration accruals understated	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work 	<ul style="list-style-type: none"> Through the use of attribute testing across the year we will test a sample of payroll payments (involving testing payroll data against individual payslips and contracts of employment) to gain assurance that employees have been remunerated at correct rates during 2012/13
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work. 	<ul style="list-style-type: none"> We will complete initial DWP certification testing of Housing and Council Tax benefits , including analytical review and verification of benefits awarded on a sample basis

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the your key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- the operation and effectiveness of the controls in place over the processing and authorisation of journals

	Work performed	Conclusion/ Summary
Internal audit	<ul style="list-style-type: none"> • We have reviewed all reports issued by Internal Audit up to the point of the interim audit visit. This review has not highlighted any instances of material control weaknesses that would have impacted on our risk assessment 	<ul style="list-style-type: none"> • Overall we have concluded that we can take assurance from Internal Audit work in contributing to an effective internal control environment at the Council • The results of this work have not impacted on our initial risk assessment
Walkthrough testing	<ul style="list-style-type: none"> • Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These areas were: <ul style="list-style-type: none"> - Employee Remuneration - Operating Expenses - Welfare Benefits 	<ul style="list-style-type: none"> • No significant issues were noted for each specific system where the walk-throughs have been completed and in-year internal controls were observed to have been implemented in accordance with our documented understanding. • We will gain further assurance in this area through substantive audit testing of year end balances

Results of interim audit work (cont.)

	Work performed	Conclusion/ Summary
Journal entry controls	<ul style="list-style-type: none"> We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements To date we have undertaken detailed testing on journal transactions recorded for the first 11 months of the year by extracting 'large and/or unusual' entries for further review. No issues have been identified from the testing to date 	<ul style="list-style-type: none"> Our testing of journals at the interim audit has not identified any errors or inconsistencies. We have not identified any instances of fraud or potential fraud. No risk of material misstatement has been identified Our interim testing covered the period of months 1-11. As part of the accounts audit we will complete the testing by reviewing journals from month 12
Review of Information Technology Controls	<ul style="list-style-type: none"> Our information systems specialist is currently performing a high level review of the general IT control environment as part of the overall review of the internal controls system. This will include a follow up of any issues that were raised in the previous year. This review is in the early stages, but there are currently no significant issues to bring to your attention 	<ul style="list-style-type: none"> Work is on-going and any findings will be reported to the Audit Committee as part of our Annual Report to Those Charged with Governance
Progress against 2011/12 recommendations	<ul style="list-style-type: none"> We have reviewed progress made by management against the action plan agreed in the 2011/12 Annual report to those Charged with Governance. 	<ul style="list-style-type: none"> The results of this review have been set out in Appendix A. Good progress has been made against six of the seven recommendations. The final recommendation (relating to VAT training for non finance department staff) has been delayed to fit with the financial systems upgrade. It is anticipated that this will be completed by September 2013. Our 2011/12 ISA 260 report also identified that five councillors did not return their annual related party declarations. As part of the accounts audit we will be reviewing the returns made in relation to 2012/13 to ensure that they are completed in full.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

2012/13 VFM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VFM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on your priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VFM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to the Audit Committee.

The results of all our local VFM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting with you on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether you are prioritising your resources with tighter budgets

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review and update our risk assessment agreed during our 2011/12 financial resilience review to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control
- review the progress made against any recommendations made as a result of the 2011/12 financial resilience review
- review your wider arrangements for prioritising resources and improving productivity and efficiency

In addition, we will consider the progress made against the recommendations made as a result of the 2011/12 objection to the accounts.

Logistics and our team

The audit cycle



Date	Activity
Jan 2013	Planning meeting
Mar 2013	Interim site work
July 2013	The audit plan presented to Audit Committee
June/July 2013	Completion of Benefits certification testing
Aug 2013	Year end fieldwork commences
Sep 2013	Audit findings clearance meeting
Sep 2013	Audit Committee meeting to report our findings
Sep 2013	Sign financial statements and VFM conclusion
Nov 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Fees

	£
Council audit	68,875
Grant certification	12,300
Total	81,175

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to you.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as your independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers your key risks when reaching our conclusions under the Code.

It is your responsibility to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan – follow up of prior year recommendations

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response – September 2012	Implementation date and responsibility	Management action follow up – March 2013
1.	<p>Prior year comparators</p> <p>The Council should review its current level of disclosure of prior year balances to ensure it is sufficient to meet the requirements of accounting standards</p>	Medium	Agreed. Prior year comparators will be disclosed in line with accounting requirements within the 2012/13 accounts.	Accountancy Manager 30 June 2013	On track to include within the 12/13 accounts, template in process of being updated.
2.	<p>Componentisation</p> <p>The Council should ensure that the fixed asset register is updated with the revised useful economic lives of revalued assets. This will ensure the correct depreciation charges continue to be made.</p>	Medium	Agreed. Asset register to be updated with revised economic lives for re-valued assets (including components where appropriate).	Principal Accountant 31 December 2012	Action achieved.
3.	<p>Insurance Register</p> <p>The Council should maintain a register of insurance policies. This should mitigate the risk of insufficient cover or policy terms and conditions being breached.</p>	Medium	A register of policies is now in place.	In place. Chris Gibson Manager of Corporate Risk	In place

Action plan – follow up of prior year recommendations (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response – September 2012	Implementation date and responsibility	Management action follow up – March 2013
4.	VAT training The Council should ensure that those staff outside the Accounts Department who are able to raise invoices receive VAT training.	Medium	Training to be provided in conjunction with user training planned for the Financial Systems upgrade currently taking place.	Principal Accountant 1 April 2012	Will be provided as part of the Financial Systems upgrade which has now been deferred to September 2013
5.	Review documentation The Council should document all checks that they perform on the VAT return so that, in the event of an error, HMRC will be able to confirm that they have been performed.	Medium	Agreed. Monthly validation / reasonableness checks now being performed will be documented.	Principal Accountant December 2012	Action achieved
6.	VAT consultation The Council should consider the processes in place around VAT consultation for significant capital projects. This should include training on basic VAT principles and guidance notes on when they should consult with the Council's VAT specialist.	Medium	Proposals for new Capital Projects will be assessed for potential VAT implications at the "PID" stage. Amendments to PID template to be considered. Guidance notes to be issued to Heads of Service.	Principal Accountant 2013/14 Budget Process: 1 st April 2013	New PID's for 2013/14 and future year's reviewed as part of the 2013/14 Capital Programme process.
7.	Partial exemption threshold The Council should ensure that the 5% partial exemption threshold is reviewed as appropriate to avoid any potential breach.	Medium	Potential VAT (partial exemption) implications will continue to be considered in respect of significant capital investment, procurement or service delivery proposals.	Principal Accountant On-going	On-going, no VAT issues identified in respect of recent investment, procurement or service delivery proposals



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