



The Audit Findings for East Hertfordshire District Council

Year ended 31 March 2013

18 September 2013

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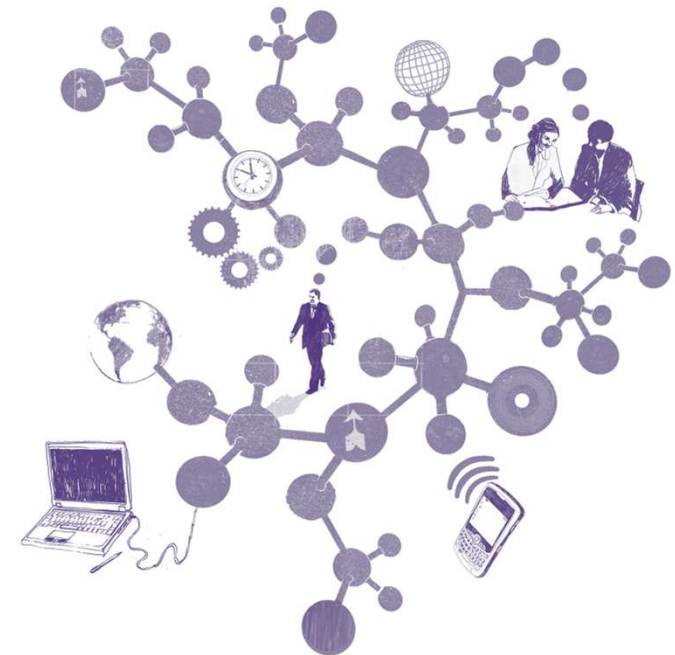
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of East Hertfordshire District Council's financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, the expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2013.

Our audit is nearing completion, subject to the satisfactory resolution of the following matters:

- obtaining final contracts for review of recycling and refuse income
- final review of the payroll reconciliation
- retrieval of archived information for testing of 9 benefits cases
- receipt and review of the final version of the financial statements

- receipt and review of the final management letter of representation
- receipt and review of the final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- completion of the Whole of Government Accounts review

We received draft financial statements and accompanying working papers of a high standard at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

Subject to the satisfactory resolution of the outstanding matters, we anticipate providing an unqualified opinion on your financial statements.

The draft financial statements recorded net expenditure of £4,196k. We have identified no misstatements as a result of your audit that would affect your reported financial position. We did not identify any significant issues as a result of our audit work.

We have recommended a small number of minor adjustments to improve the presentation of the financial statements. Management has agreed to adjust the accounts accordingly.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, following our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to issue an unqualified VFM conclusion.

Further detail of our work on your arrangements to secure Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We are in the process of completing our work on the Whole of Government Accounts. From the work completed to date, we have no issues which we wish to highlight for your attention.

Controls

Your management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However where, as part of our testing, we identify any control weaknesses, we report these to you.

We draw your attention to some minor control issues identified in relation to your IT systems. Further details are provided within section 2 of this report.

The way forward

Matters arising from our financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Director of Finance and Support Services.

We have made a small number of recommendations in relation to IT, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Support Services and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during our audit.

Grant Thornton UK LLP
18 September 2013

Section 2: *Audit findings*

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Audit findings

In this section we present the work we have undertaken and our findings in respect of: (a) matters and risks identified at the planning stage of the audit, as summarised in our Audit Plan and presented to the Audit Committee in April 2013; and (b) additional matters that arose during the course of our work. We have not had to change our Audit Plan from that previously communicated to you. The findings presented below are subject to the satisfactory resolution of outstanding matters, as set out on page 5.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	None		No	No significant issues identified (see page 12).
Cost of services – operating expenses	Property, Plant & Equipment	None		No	None
Costs of services – employee remuneration	Employee Remuneration	Other	Employee remuneration accruals understated	No	No significant issues identified, subject to satisfactory completion of payroll reconciliation work (see page 12).
Cost of services – Housing & Council Tax benefit	Welfare Expenditure	Other	Welfare benefits improperly computed	No	Subject to the satisfactory resolution of the benefits testing, our work has not identified any significant issues (see page 13).
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from Council Tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/Losses	Revenue/ Operating expenses	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	None		No	None
Heritage assets & investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash & cash equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	No significant issues identified (see page 12).
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

Audit findings against significant risks

"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 set out our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Throughout the course of the audit we performed the following:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue and expenditure streams, including cut off testing • review of unusual significant transactions 	<p>Subject to the satisfactory resolution of the remaining testing, our audit work has not identified any issues in respect of revenue recognition. You have adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>Throughout the course of the audit we performed the following:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • Cut off testing of income and expenditure • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. These findings are subject to the satisfactory resolution of the outstanding matters as set out on Page 5.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Trade and other payables	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We undertook testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified • We have reviewed large and unusual creditor and accruals balances and tested a sample of items 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We undertook testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment • We agreed payroll data to HMRC returns • We agreed the pensions liability to third party confirmation • We reviewed senior management remuneration and disclosures • We reviewed exit packages and disclosures 	Subject to the satisfactory resolution of our work in relation to the payroll reconciliation, our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We completed initial Department of Work and Pensions certification testing of housing and council tax benefits, including analytical review and verification of benefits awarded on a sample basis. We are currently awaiting the retrieval of archived information to finalise the testing of nine remaining benefit cases 	<p>Subject to the satisfactory resolution of the remaining testing, our audit work has not identified any significant issues in relation to the risk identified</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within your financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> We have reviewed the accounting policies in place with regard to revenue recognition The accounting policy stipulates that income for services provided is recognised when, and to the extent that, performance occurs. Grant income is recognised when there is assurance that the Council will comply with any conditions attached to the payments 	<ul style="list-style-type: none"> The revenue recognition policy is in line with the requirements of the CIPFA Code and accounting standards For revenue balances, we tested a representative sample and gained assurance that you have accounted for income in line with the policy. 	●
Judgements and estimates	<ul style="list-style-type: none"> Significant judgements and estimates have been considered in the following areas: <ul style="list-style-type: none"> – Asset valuations 	<ul style="list-style-type: none"> We reviewed the valuations work performed, including considering the assumptions used by the valuers and assessing whether valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards. No issues were identified from the testing performed 	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the accounting policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	●

Assessment

● Inappropriate accounting policy ● Accounting policy appropriate but scope for improved disclosure ● Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit. Management has agreed to amend the accounts in respect of the following.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	-	PPE	<ul style="list-style-type: none"> Our review of investment properties identified that two properties had been incorrectly classified as investment properties. We have recommended that they are reclassified as operational assets. Both properties are valued at £1 as a result of being let out at a peppercorn rent, meaning that this reclassification has no impact on the financial statements.
2	Disclosure	2	Audit fee disclosure	<ul style="list-style-type: none"> The audit fee disclosure is misstated by £2k. Management has agreed to correct this in the final version of the financial statements.
3	Disclosure	-	Financial Statements	<ul style="list-style-type: none"> There were a number of minor presentational changes (e.g. spelling and rounding) that arose during the course of our audit that have been amended in the financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements. We considered these controls to enable us to design audit procedures that are appropriate in the circumstances, but we did not consider them for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
IT findings:			
1.	●	<p>Payroll system password configuration:</p> <p>Password controls over the payroll system should be strengthened as:</p> <ul style="list-style-type: none"> • Passwords are not required to have a minimum length • Passwords do not expire • Complex passwords are not required • Users are allowed 100 grace logons before having their account locked • Dictionary is not used to restrict common words such as password <p>The lack of strong password controls increases the risk of unauthorised or inappropriate system access</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Password minimum length is increased to 8 characters • Password expiry is set to 30-60 days • The use of complex passwords is enabled • Accounts are locked after 3 grace logons <p>In addition, the usage of a dictionary should be considered to restrict users from choosing common words as passwords</p>
2.	●	<p>Leavers access rights to Capita: Academy:</p> <p>No periodic leavers list is provided by Human Resources to the Capita: Academy system team.</p> <p>This increases the risk that a leaver could access systems when they are no longer in the employment of the organisation or give those permissions to another employee at a lower level of access.</p>	<p>Management should implement a formal process to ensure a periodic human resources report of leavers is provided to the Capita: Academy system personnel.</p>



Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<p>IT security policy update:</p> <p>Although there is an approved and communicated IT Security Policy, this document has not been updated since July 2007.</p> <p>Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security of the Council. This may compromise the systems and information used.</p> <p>This issue was previously identified in the 2011/12 review and this new recommendation reflects the latest position.</p>	<p>The IT Security policy should be reviewed at planned intervals or when significant changes occur to ensure its continuing stability, adequacy and effectiveness. We recommend updated IT policies are reviewed and approved by management, published and communicated to all employees and relevant third parties.</p>
4.		<p>Unauthorised access attempt reports:</p> <p>Although unauthorised access attempts to Civica are monitored on a daily basis, there is no documented process to review unauthorised entry attempts to the network, Capita: Academy and Wealden Payroll on a periodic basis.</p> <p>There is a risk that unusual activity or security events taking place within the revenues/benefits and payroll systems might not be detected in a timely manner in the absence of such a control. Given the criticality of the data in these systems, it is advisable that there are processes to identify any unauthorised access, thereby reducing the risk of fraud, manipulation or error.</p> <p>This issue was previously identified in the 2011/12 review and this new recommendation reflects the latest position.</p>	<p>A policy associated to unauthorised login attempts to the revenues/benefits and payroll systems should be created. This policy should consider a review of unauthorised login attempts, as well as set out follow up actions to be adopted in case a security risk is identified.</p>

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit procedures]
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested. This should be signed alongside the financial statements.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> Testing performed in relation to related parties has not highlighted any issues requiring amendment to the financial statements. We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis. Please see section 3 for details of our financial resilience review.
7.	Internal Audit	<ul style="list-style-type: none"> We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instances of material control weaknesses which have impacted on our risk assessment The Annual Assurance Statement for the year ended 31 March 2013 has concluded that 'substantial assurance' has been obtained over the financial systems
8.	Annual Governance Statement	<ul style="list-style-type: none"> We have reviewed the Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the disclosures made are consistent with our knowledge of you and your key strategic risks. We have no matters to report in this respect.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** You have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** You are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2013. We therefore propose to issue an unqualified value for money conclusion at the same time as our opinion on the financial statements. We have set out our findings below.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

We have summarised our overall assessment of each area in the table below:

Characteristic	2012/13 assessment	2011/12 assessment
Key indicators of financial performance	GREEN	GREEN
Financial planning	GREEN	AMBER
Financial governance	GREEN	GREEN
Financial control	GREEN	GREEN

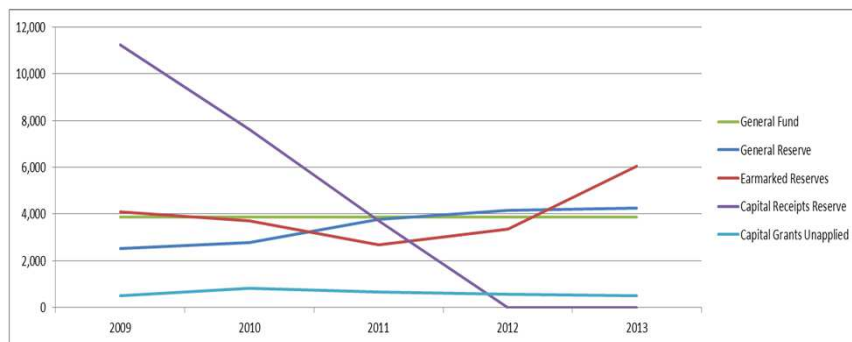
Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised resources to take account of the tighter constraints within which you are required to operate. The key findings from the work performed have been identified on subsequent pages.

Key indicators of performance

You have maintained a strong financial position, reflecting good performance in challenging financial times.

At 31 March 2013 your usable reserves level had increased by £2.7m to a total of over £14.5m. This increase was primarily due to a £2m underspend in year, but the original budget had forecast an £800k contribution to reserves. The trend in useable reserve balances is shown in the graph below:



Each year a risk assessment is undertaken to determine the level of reserve balances required. The current view is that you are well placed with regard to establishing appropriate earmarked reserves and balances. The proposals in the 13/14 revenue budget include no fresh requirements to draw on reserves and the Medium Term Financial Strategy does not plan to call on the general reserve in the period to 16/17.

It has been noted that the proposed reserve levels are in excess of the Reserves Policy agreed by the Executive. This has been discussed between officers and members, who consider it to be appropriate given the level of uncertainty with regard to future funding.

Strategic Financial Planning

The revenue budget for 13/14 recognises the pressures you face as a result of reducing public expenditure and increasing financial constraints across the sector. It takes into account the changed funding regime and the uncertainty presented by both the locally determined and managed Council Tax support scheme and the localisation of business rates. The Financial Strategy has also been updated to so that that the key focus remains the maximisation of financial resilience.

East Herts proportion of Council Tax was reduced by 1% in 2013/14, enabling receipt of grant funding equivalent to a 1% increase in both 13/14 and 14/15. Changes to Council Tax support, however, have meant that a proportion of funding has had to be found from other resources to support pensioners on Council Tax benefit to ensure they continue to receive the same level of benefits.

With the changes to the business rates and the anticipated reduction in Revenue Support Grant, the monitoring and forecasting of collection levels are increasingly important. To this end, you are currently working on further developing your monitoring system.

The MTFP does retain planning contingency sums for 13/14 and beyond to take into account the potential impact of these funding changes, but these cannot be maintained indefinitely, highlighting the requirement for accurate budgeting.

You continue to hold a substantial level of cash and investments and the Treasury Management Strategy aims to ensure there will always be ready access to cash.

With the continued uncertainty and pressures facing the sector, it remains a challenging process to set accurate budgets and medium term plans. Whilst the importance of on-going monitoring is as significant as ever, you appear to be in a strong position to manage these challenges.

Financial Governance

Our prior year financial resilience report confirms that no significant issues had previously been identified. We have updated our review for 2012/13 and no issues have come to light that have indicated any changes to this position.

The Executive retains the overall responsibility for the implementation of the budget and they continue to receive detailed monthly Corporate Healthcheck reports to help them oversee performance.

One area that has been discussed in detail with senior officers is the level of budget underspend for the year. You have achieved net underspends in each of the last five years and the underspend in 12/13 was almost £2m. This was made up of £2.6m favourable balances and £0.7m adverse variances.

As a result of this underspend, a process is underway to review the cause of in year variances (and to identify trends over a number of years).

Management are also developing plans to identify improvements in financial management and ensure that resources are prioritised in the right way. The stated intention is that budgets should be as accurate as possible, including assessing in detail any vacant posts that are included within individual budgets. Any budget pressures should then be identified as early as possible to enable them to be met through the central contingency.

Through improving the accuracy of budgeting, you will be better able to focus your resources where they are most needed. This will also support the identification of savings going forward as they become harder to identify year on year.

Financial Control

Our prior year financial resilience report confirms that no significant issues had previously been identified. We have updated our review for 2012/13 and no issues have come to light that have indicated any changes to this position.

You continue to focus on the scale of the financial challenge ahead. As in previous years, Members have been presented with a range of savings options to incorporate into the Medium Term Financial Plan.

Savings options are becoming increasingly difficult to implement as the more straightforward cost cutting options have been exhausted. This increases the importance of accurate monitoring. You have put a system in place to ensure that savings are reviewed and RAG rated on a line by line basis.

You continue to produce reliable financial information and Internal Audit assigned full assurance to the systems and processes in place that underpin the main accounting system process. The finance system is currently being upgraded with support from Civica and discussions with senior officers have recognised that they will be looking to identify efficiencies from this upgrade wherever possible.

Internal Audit identified in their report for the year that there were some IT control issues. This has long been recognised and there has been subsequent approval for the IT shared services project with Stevenage BC. This is intended to deliver efficiencies in addition to the requirements of strengthened resilience and increased capacity.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services

Fees

	Per Audit plan £	Actual fees £
Council audit	68,875	68,875
Grant certification	12,300	TBC
Total audit fees	81,175	TBC

Scale audit fee

The Audit Commission define the scale audit fee as:

"the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

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.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 the Council's 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 the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
IT findings:				
1.	<p>Payroll system password configuration:</p> <p>Management should consider the following:</p> <ul style="list-style-type: none"> • increasing the minimum password length to 8 characters • setting password expiry to 30-60 days • enabling the use of complex passwords (including the use of a dictionary to restrict users from choosing common words) • locking accounts after 3 grace logons 	Medium	East Herts will review security policies relating to all major line of business applications once the overall review of network security has taken place as the latter may impact on the former. East Herts propose to review password control and other security for the payroll system by September 2013.	Head of Shared IT September 2013
2.	<p>Leavers access rights to Capita: Academy:</p> <p>Management should consider implementing a formal process to ensure a periodic human resources report of leavers is provided to the Capita: Academy system personnel</p>	Medium	Academy system personnel are to be included on the leaver notification email from HR from July 2013.	Systems & Support Manager (Capita) Implemented

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p>IT security policy update:</p> <p>Management should ensure that the IT Security Policy is reviewed at planned intervals or when significant changes occur to ensure its continuing suitability, adequacy and effectiveness. We recommend that updated IT policies are reviewed and approved by management, published and communicated to all employees and relevant third parties.</p>	Medium	<p>East Herts agreed to pursue a shared ICT service with Stevenage Borough Council in August 2013. The shared service arrangements focus on the implementation of a shared data service centre for the two partner authorities which will be implemented by the end of 2013/14. In order for these proposals to go forward there is an urgent requirement to review IT security policies for both authorities. A provisional timeframe to review core security policies has been set as December 2013, subject to agreement by the Shared Services Partnership Board in their first meeting on 9 September.</p>	<p>Head of Shared IT December 2013</p>
4.	<p>Unauthorised access attempts reports:</p> <p>Management should create a policy associated to unauthorised attempts to the revenues/benefits and payroll systems. This policy should consider a review of unauthorised login attempts, as well as set out follow up actions to be adopted in case a security risk is identified.</p>	Medium	<p>East Herts will review security policies relating to all major line of business applications once the overall review of network security has taken place as the latter may impact on the former. A provisional timeframe to review core security policies has been set as December 2013</p>	<p>Head of Shared IT December 2013</p>

Appendix B: Audit opinion

We anticipate we will provide an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST HERTFORDSHIRE DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of East Hertfordshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Support Services and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Hertfordshire District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, East Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of East Hertfordshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Grady
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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