



The Audit Plan for East Herts District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

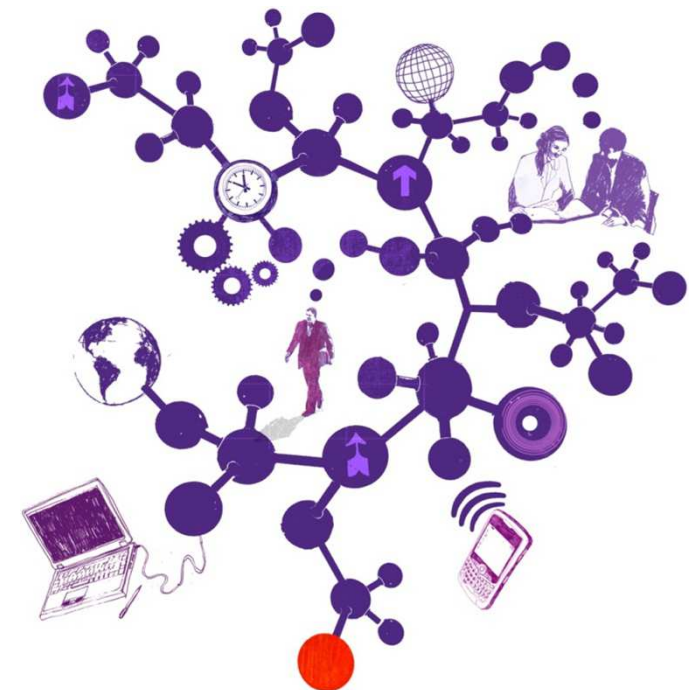
Year ended 31 March 2014

June 2014

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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 pressures

- You face further reductions in funding from central government. This places continuing importance on the delivery of your medium term financial strategy.
- You are forecasting a year end underspend of £0.6 million

2. Welfare reforms

- You face financial and operational pressures implementing to welfare reforms

3. Shared service/IT

- You have implemented a new shared service for IT during the year

4. New initiatives

- You have changed the recycling element of the refuse contract.
- You have entered into a joint arrangement for the CCTV company.

5. De-cluttering the accounts

- Local government accounts can be long and cluttered with unnecessary information.
- You want to make your accounts easier to understand for users.

Our response

- As part of our financial resilience work we review the adequacy of your assumptions within your medium term financial strategy. We will review your medium term financial strategy and savings plans and review the arrangements in place to meet budgetary pressures.

- As part of our value for money conclusion work we will review your arrangements to implement welfare reforms.

- As part of our value for money conclusion work we will review your arrangements to implement shared services.

- As part of our value for money conclusion work we will review your arrangements to implement new initiatives.

- We will continue to work with your finance team and discuss the ways in which you can improve the presentation of your accounts.

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 ('the code') and associated guidance.

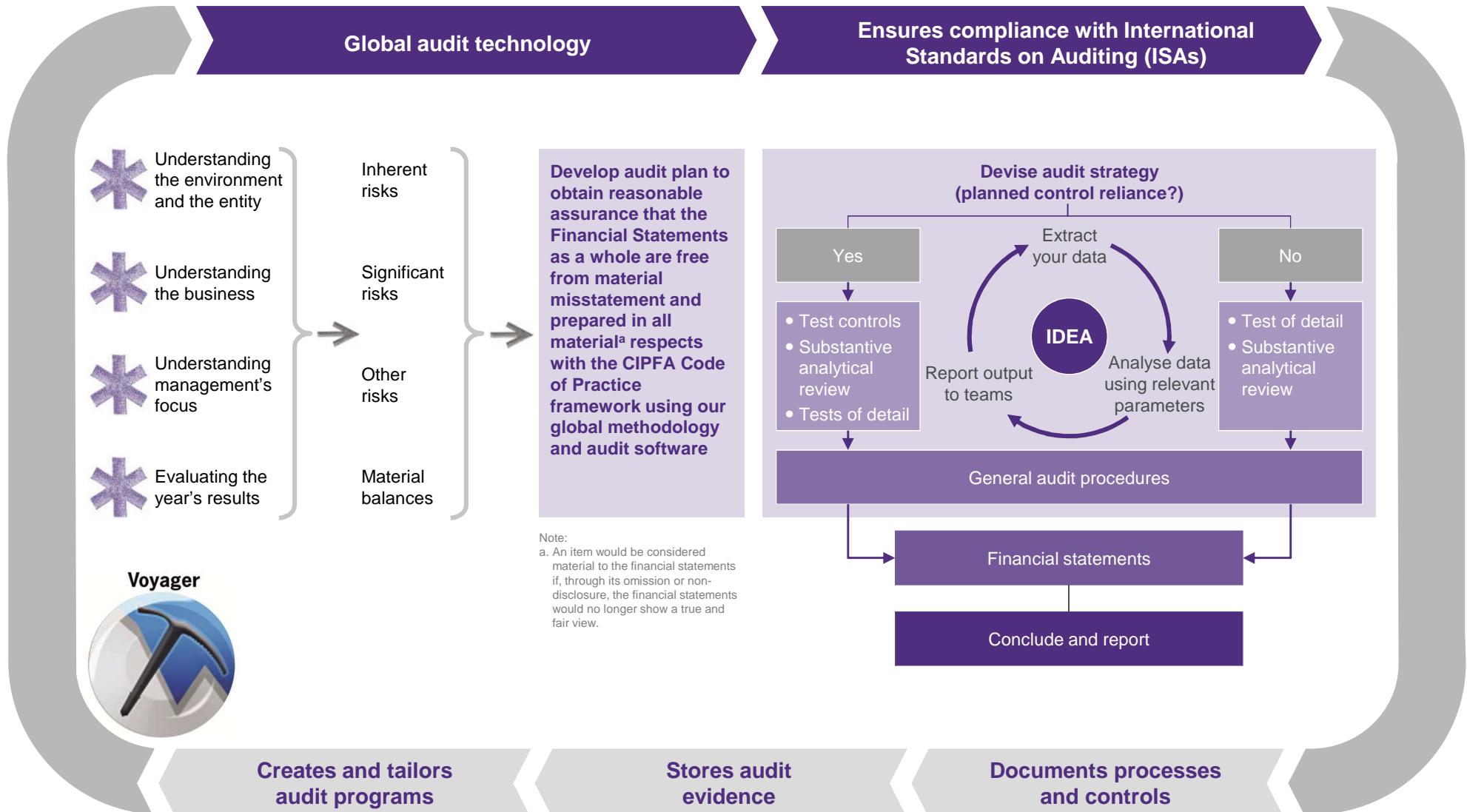
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Clarification of Code requirements around PPE valuations Changes to NDR accounting and provisions for business rate appeals 	<ul style="list-style-type: none"> Local Government Finance settlement Welfare reform Act 2012 	<ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) the impact of your advance payment 	<ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<ul style="list-style-type: none"> You are required to submit a Whole of Government accounts pack on which we provide an audit opinion You complete grant claims and returns on which audit certification is required

Our response

<p>We will review</p> <ul style="list-style-type: none"> your revaluation policies to assess your compliance with the requirements of the new CIPFA Code of Practice your approach to treating NDR appeals through discussions with management and our substantive testing 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> We will review your arrangements for the production of the AGS We will review your AGS and explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> We will review how you dealt with the impact of the 2013/14 changes through our meetings with senior management We will review the legal advice you are relying on to support your proposed actions and accounting treatment. 	<ul style="list-style-type: none"> We will review your performance against the 2013/14 budget, including consideration of performance against the savings plan We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> 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
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Our audit approach



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 which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

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.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Testing of material revenue streams Testing of accruals and cut off procedures
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Review of journal procedures Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries in particular self authorised journals Review of unusual significant transactions
Upgrade to general ledger	A significant upgrade to the general ledger was undertaken during the year. There is a risk that data within the general ledger was not correct following the upgrade.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of management's processes to ensure data integrity following the upgrade of the general ledger. <p>Further work planned:</p> <ul style="list-style-type: none"> Review the arrangements and controls to assess the completeness and accuracy of transferred data, including review of management's reconciliations to ensure data integrity following the upgrade of the general ledger. Substantive testing to confirm the completeness and accuracy of transferred data Undertake walkthroughs of the new system to assess the controls in place , and substantively test transactions in your accounts derived from the system.

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	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"> We will test a sample of invoices to gain assurance that expenditure has occurred and has been correctly classified.
Employee remuneration	Employee remuneration accrual 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 with the specific system controls or processes. 	<ul style="list-style-type: none"> We will test a sample of payroll payments to gain assurance that employees have been remunerated at correct rates during 2013/14.
Welfare Expenditure	Welfare benefit expenditure 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 with the specific system controls or processes. 	<ul style="list-style-type: none"> We will complete the initial testing of housing benefits required for the housing benefit grant claim. We will test a sample of council tax benefit payments.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on your key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to you and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy. We have identified different processes prior to and after the general ledger upgrade. We will test journals prior to the upgrade manually. We will test journals after the upgrade through the use of our audit software.</p> <p>We identified journals which can be authorised by the preparer. This is limited to a member of staff within the finance team. We will apply tests of detail to journals authorised by the preparer.</p>	<p>Our testing of journals to date has not identified any errors or inconsistencies with our understanding of your system.</p> <p>We will complete our testing of journals in our accounts audit.</p>

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

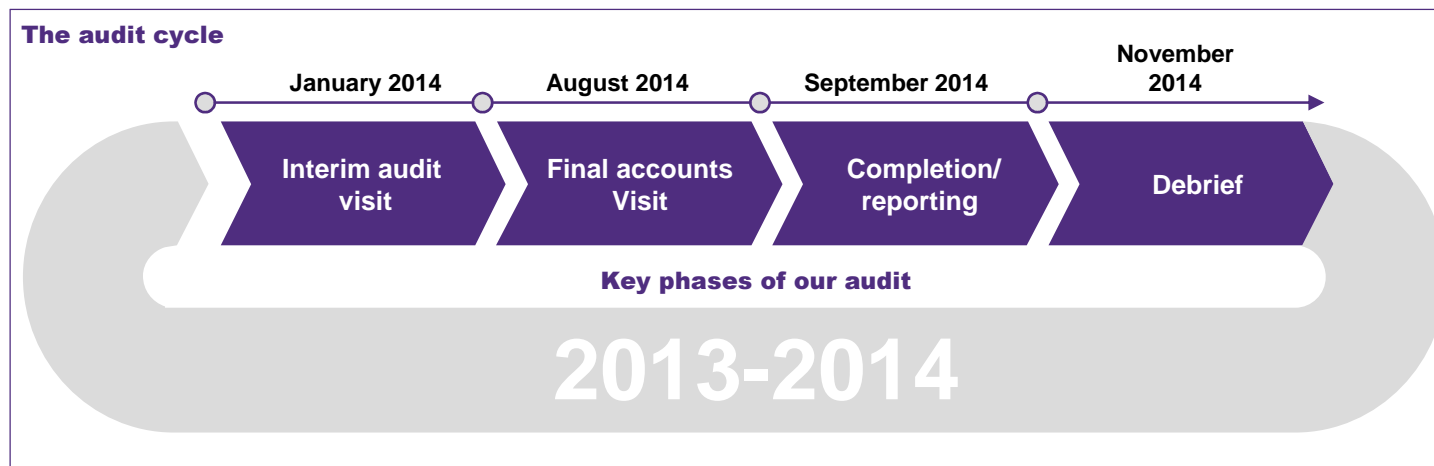
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review of your financial resilience including:
 - an assessment of financial performance during the year and its impact on your financial health
 - a review of your medium term financial plans covering financial forecasting, planning assumptions and the robustness of future savings plans
 - follow up your plans for investment and income generation
- review of your on-going arrangements to enhance and strengthen budgetary setting and monitoring
- follow up progress made on the significant control gaps in the prior year annual governance statement
- review your approach to managing the implications of welfare reform
- follow up progress on strategic initiatives such as shared service implementation

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Key dates



Date	Activity
December 2013	Planning
January 2014	Interim site visit
August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	68,875
Grant certification	12,600
Total fees (excluding VAT)	81,475

Our fee assumptions include:

- 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
- The Council 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 the Council.

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 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.

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		✓



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