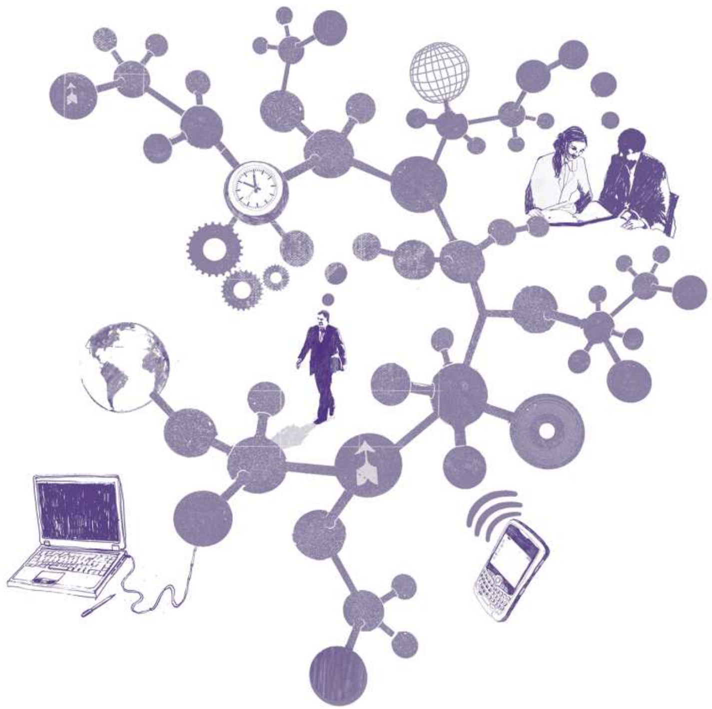
Audit findings report for the East Hertfordshire District Council

Year ended 31 March 2014

September 2014



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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.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of your financial statements for the year ended 31 March 2014. 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, your 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

We communicated our planned audit approach in our Audit Plan, which was presented to the Audit Committee on 16 July 2014. We have not altered our planned audit approach.

Our audit is nearing completion. As at the date of writing this report we are finalising our procedures in the following areas:

- review of outstanding evidence to complete testing on:
    - your ledger upgrade data reconciliations
    - creditors
    - employee remuneration
- receipt and review of your final amended version of the financial statements;
- obtaining and reviewing the final letter of management representations;
- work for the NAO on your Whole of Government Accounts return;
- final senior management review and quality control procedures; and
- updating our post balance sheet events review to the date of signing the opinion.

Key findings from our audit

Financial statements opinion

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

We have not identified any adjustments affecting your reported financial position, and your recorded net expenditure remains unchanged at £19.4 million.

We identified a small number of presentational and typographical errors in the draft financial statements. Officers have agreed to amend the financial statements in respect of these points.

Other key messages arising from our audit of your financial statements are:

- the financial statements and supporting working papers were provided on time;
- you may wish to consider de-cluttering your accounts in future years;
- you may wish to consider updating asset revaluation procedures in light of changes to the CIPFA Code in this area.

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

Value for Money conclusion

We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on value for money is set out in section 3 of this report.

Whole of Government Accounts

We are in the process of completing our work on your Whole of Government Accounts. We intend to complete our work in accordance with the national timetable.

Internal Controls

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 reported four improvement points on internal controls. Further details are provided within section 2 of this report.

The way forward

Matters arising from our audit have been discussed with the Director of Finance.

We have made eight recommendations from our audit, as set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance.

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
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 16 July 2014.

We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We made not altered our planned audit approach.

Audit opinion

Subject to the satisfactory completion of outstanding matters, we anticipate that we will provide you with an unmodified opinion. Our proposed audit opinion is set out in Appendix B.

De-cluttering the accounts

The financial statements includes a significant number of disclosures. We recommend you undertake a de-cluttering exercise to determine whether the disclosures remain appropriate in terms of the accounting framework, CIPFA's code and local circumstances.

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 detail 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.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• Review and testing of revenue recognition policies • Testing of material revenue streams • Testing of accruals and cut off procedures	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any issues in respect of revenue recognition policies. Our testing confirms compliance with the policies.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• Review of accounting estimates, judgments and decisions made by management during preparation of the financial statements • Review and testing of journal entries • Review of significant unusual transactions	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any evidence of management override of controls. After the upgrade to the general ledger, two journals were processed where one officer both posted and authorised their own journals. Management identified the issue promptly and subsequently manually authorised the journals after the event. Management did not consider the journals to be inappropriate. Management also amended the system to prevent journals being posted and authorised by the same officer and no further instances were identified. Our audit work identified seven journals without a named authoriser. The authoriser had left the Council and been removed from the system in line with the process in previous years. Prior to the upgrade of the general ledger, the journal audit trail was maintained manually. After the upgrade the audit trail is electonic and the name of the authoriser was removed. We have identified this as an internal control issue. We did not identify any significant issues in our testing of the journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Upgrade to general ledger system**	• Review of management's processes to ensure data integrity following the upgrade • Review and testing of arrangements to assess the completeness and accuracy of transferred data • Testing to confirm the completeness and accuracy of transferred data • Walkthrough test of controls operating within the upgraded system	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any issues in respect of the accuracy or completeness of data transferred with the system upgrade, or the other work completed in respect of this risk.

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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken substantive testing of operating expenses transactions and year-end creditor balances.	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken substantive testing of a sample of payroll expenditure transactions;	Subject to the satisfactory resolution of outstanding matters summarised on page 5, 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
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken detailed testing of housing benefit expenditure in accordance with the national methodology set by the Department for Work and Pensions (DWP) • undertaken additional testing of council tax reduction transactions, which are no longer subject to certification work for the DWP.	Our audit work has not identified any significant issues in relation to the risk identified.

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	Activity is accounted for in the year that it takes place, as set out in detail in accounting policy ii of your financial statements.	• The accounting policy is adequately disclosed in line with the requirement of the Code. • Subject to the satisfactory resolution of outstanding matters summarised on page 5, our testing of material income and expenditure streams has not identified any instances of inappropriate revenue recognition.	● (Green)
Judgements and estimates	Key estimates and judgements include: • provisions and allowance for bad debt • accruals and prepayments • actuarial valuations of the pension fund under IAS19 • PPE valuations, impairment and depreciation (see separate section below)	• Judgements and estimates have been disclosed appropriately and adequately. These disclosures detail the level of judgement used and the extent of judgement involved. • Subject to the satisfactory resolution of outstanding matters summarised on page 5, no evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement. • We have performed a detailed review of your business rate appeals provision, which was recognised for the first time in 2013/14. We are satisfied that you have taken an appropriate approach to estimating the value of this provision, and that it has been correctly accounted for in the financial statements.	● (Green)

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators (Red)
- ● Accounting policy appropriate but scope for improved disclosure (Amber)
- ● Accounting policy appropriate and disclosures sufficient (Green)

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 with your financial statements.

Accounting area	Summary of policy	Comments	Assessment

Judgements and estimates – Property, Plant and Equipment (PPE)	Your approach to revaluation of PPE assets is a rolling four year cycle, so that assets included on the 31 March 2014 balance sheet were last valued between 2010/11 and 2013/14.	• In our view, this rolling programme does not meet the Code's requirement (in paragraph 4.1.2.35) to value items within a class of property, plant and equipment simultaneously. This paragraph of the Code, which is based on IAS 16 (Property, Plant and Equipment) does permit a class of assets to be re-valued on a rolling basis provided that:
		  • the revaluation within the class of assets is completed within a 'short period'; and
		  • the revaluations are kept up to date.
		• In the absence of further guidance from CIPFA, we would normally expect this 'short period' to be interpreted as within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.
		• We note that the approach you adopt is similar to that adopted by many other local authorities. Furthermore, our comparison of your valuation to expectation of the carrying amount of PPE does not differ materially from the fair value at 31 March 2014. However we recommend that you review your approach to asset valuations for 2014/15.
			● (Amber)

Other accounting policies	We have reviewed the your policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● (Green)

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators (Red)
- ● Accounting policy appropriate but some scope for improvement (Amber)
- ● Accounting policy appropriate and disclosures sufficient (Green)

Adjusted and unadjusted misstatements

Subject to the satisfactory resolution of outstanding matters summarised on page 5, no non-trivial misstatements have been identified in the course of our audit. We have no matters to report to you in this regard.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

	Adjustment type	Impact on the financial statements
1	Management has made a number of minor presentation and typographic changes to the draft accounts, in response to our initial review of the financial statements.	Minor presentation and typographic changes only – no impact on reported figures.
2	The audit fees disclosure note was amended to remove actuary fees, payments to the National Fraud Initiative and to remove 2012/13 grant certification fees.	Restated disclosure note - no impact on reported figures
3	Related party transaction disclosure note omitted transactions with Riversmead Housing Association and with Town Councils.	Restated disclosure note – no impact on reported figures
4	The Comprehensive Income and Expenditure Statement discloses a loss on disposal of investment property. The transaction is a gain on disposal.	Wording change to disclosure note

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 in order to design audit procedures that are appropriate in the circumstances, but not 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
1	● (Amber)	Our audit identified a small number of areas where you could consider making minor improvements to security access settings within your general ledger system.	Consider the minor improvements to general ledger security access settings.
2	● (Amber)	Seven journals did not display the name of the authoriser as the authoriser had left the Council and had been removed from the system. The removal of the authoriser in this way left gaps in the audit trail.	Review the process for removing leavers from the system to ensure that the audit trail is maintained in full.
3	● (Amber)	The Fixed Assets Register applied depreciation before the revaluation which was as at 1 April 2013. The revalued assets were depreciated on the basis of their previous value. The difference was not significant in 2013/14 however the difference may be significant in another year.	Review the fixed assets register to ensure that depreciation is applied appropriately.
4	● **(Amber)**	The listing to support the Creditors balance includes £391k of suspense accounts. Testing of a sample of these balances identified that the amounts were not suspense items. It is not considered good practice to hold suspense amounts at the year end.	Review all suspense accounts and take action to ensure that appropriate terminology is used.

Assessment

● Significant deficiency – risk of significant misstatement (Red)

● Deficiency – risk of inconsequential misstatement (Amber)

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**	• We have previously discussed the risk of fraud with both the Director of Finance and the Chair of the Audit Committee.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representations has been requested from you.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.
7.	**Internal Audit**	• We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instance of material control weaknesses which have impacted on our risk assessment. • The Annual Assurance Statement for the year ended 31 March 2014 has concluded that internal controls within financial systems and operational systems operating throughout the year are fundamentally sound.
8.	**Annual Governance Statement**	• 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. The disclosures made are consistent with our knowledge of you and your key strategic risks, and we have no matters to draw to your attention.

Section 3: Value for Money

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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

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 have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2014. We therefore propose to issue an unqualified value for money conclusion at the same time as our opinion on the financial statements.

We set out below a summary of our findings against six risk areas which have been used to assess your performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	In 2013/14 you achieved an overall underspend of £1 million against a total revenue budget of £70 million. Key indicators of financial health continue to compare favourably to similar District Councils (see charts in Appendix C to this report).	Green	Green
Strategic financial planning	Your medium-term financial strategy (MTFS) remains robust and supports decision-making by quantifying the potential budget gap from 2016/17. You have identified areas for further development to enhance your MTFS. It is important that you deliver the planned developments to ensure that your MTFS remains robust. There is no certainty on central government spending plans following the 2015 general election. Despite positive momentum in the wider economy, independent fiscal forecasts suggest that significant decreases in government expenditure are likely to continue until at least 2018/19.* Your MTFS identifies budget gaps in future years including from 2016/17. You have a savings plan in place which is monitored throughout the year. A small number of individual savings programmes were assessed as 'red' rated indicating delivery of savings was less than planned. However, overall in 2013/14 the savings target was delivered. As part of your budget challenge process you are reviewing the 2013/14 savings plan. Any lessons learnt from the budget challenge should be used to enhance your MTFS as you continue to develop a robust savings plan to address the budget gaps.	Green	Green
Financial governance	Reports to the Executive demonstrate that Members are engaged with your financial performance and use this to inform decision-making. Budgetary control and reporting is good. You have exceeded the maximum level of reserves, as set out in your Reserves Policy. The 'Amber' rating reflects that you have exceeded your own policy. To preserve good practice within your financial governance, you should either consider the appropriateness of your reserves policy or, if you consider the reserves threshold to remain appropriate, put in place governance arrangements to ensure you remain within said policy. We note that you have identified the issue yourself and commenced a review.	Green	Amber

* Sources: Office for Budget Responsibility, *Economic and Fiscal Outlook – March 2014*, http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
Institute for Fiscal Studies, *IFS Green Budget 2014*, http://www.ifs.org.uk/publications/7072

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	Your control environment remains satisfactory. Budget monitoring processes are good, and variances from budget are well-understood and explained. Your budget challenge programme continues to enhance the robustness of budgets. You are undertaking a review of the structure of your finance function with a view to further strengthening your arrangements and ensuring future resilience. We note that your internal auditors have made several recommendations for improvements of your core financial systems. None of these recommendations indicate that there is a fundamental weakness or lack of control around core financial systems, and we do not consider that these present a material risk to our VFM conclusion. Notwithstanding this, management should, of course, ensure the matters raised by internal audit are addressed.	**Green**	**Green**
Prioritising resources	You continue to integrate your financial reporting within your corporate performance reporting. This approach enables resources to be prioritised against your strategic aims. Your work on your District Plan provides a framework to shape your built environment whilst supporting your priorities. Significant work has been undertaken to develop a plan that meets local needs as well as external pressures.	**Green**	**Green**
Improving efficiency & productivity	You have made progress in implementing shared services with shared services implemented for ICT, Business Improvement, Print and Design Services. The Business Cases supporting the decisions on shared services show a commitment to improving efficiency.	**Green**	**Green**

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Audit Fees

	Per Audit Plan £	Actual fees £
Council audit	68,875	68,875
Additional fee - NDR	0	900
Grant certification	12,600	tbc
Total audit fees	**137,961**	**tbc**

Grant certification fees

Our grant certification work is ongoing. Since the Audit Plan was issued, changes have been made to the grant certification regime which has reduced the number of grants which we are required to audit. Your scale fee for grant certification is now £11,088. We will report the final fee to the Audit Committee in our annual certification report.

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for District Councils.

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

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.

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 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

Rec No.	Recommendation	Management response	Implementation date & responsibility
1	Review your approach to revaluing property assets to ensure compliance with the clarified requirements of the CIPFA Code.	Officers will review current processes with the property team to evaluate the resource implications of changing processes.	31 March 2015
2	Consider the minor improvements to security access settings.	Officers will review these recommendations and evaluate whether there are sufficient controls in place to mitigate risks identified.	31 March 2015
3	Review the process for removing leavers from the system to ensure that the audit trail is maintained in full	Officers have reviewed the control with the IT supplier and implemented a way forward.	31 March 2015
4	Review the fixed assets register to ensure that depreciation is applied appropriately.	Officers will make appropriate changes to the fixed assets register.	31 March 2015
5	Review all suspense accounts and take action to ensure that appropriate terminology is used.	Officers will review the term 'suspense accounts' and ensure appropriate terminology is used in future, for example holding accounts.	31 March 2015
6	Consider undertaking a de-cluttering exercise to ensure that the financial statements disclosures remain appropriate.	Officers will review the required disclosures and agree a way forward with the Audit Committee in line with current best practice and meeting the needs of the business.	31 March 2015
7	Enhance your MTFS by delivering your planned developments to ensure that your MTFS remains robust.	Senior Management will continue to develop the Medium Term Financial Plan and Strategy to ensure a robust budget is set for 2015/16 onwards.	31 March 2015
8	Continue to use your budget challenge process to: - Deliver a robust savings plan which address future budget gaps - Ensure that reserves remain within the range set in your policy	Senior Management will continue to: - Consider the impact of prior years' underspends on future budgets and challenge savings plans - Review the reserves policy, current level of reserves for the MTFS.	31 March 2015

Appendix B: Audit opinion

We anticipate we will provide you with an unmodified audit report

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

Opinion on the financial statements

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise 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 2013/14.

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 auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

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 October 2013, 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 2014.

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 October 2013, 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 2014.

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

Grant Thornton House, Euston Square, London

[Date]

Appendix C: Key Indicators of Financial Health

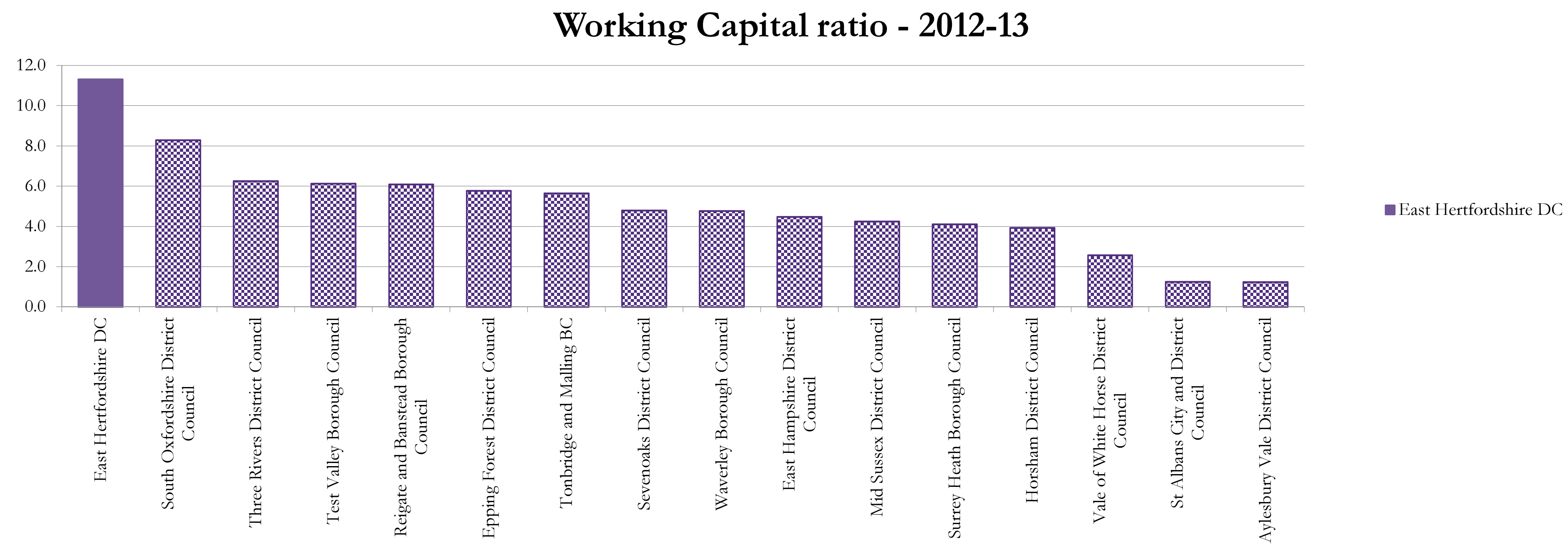
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. A high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Your working capital ratio compares well to the peer group of other District Councils. This gives assurance that your cash flow position is strong. Combined with your significant reserve balances, you are unlikely to have difficulties meeting commitments as they fall due in the short term.



Key Indicators of Financial Performance

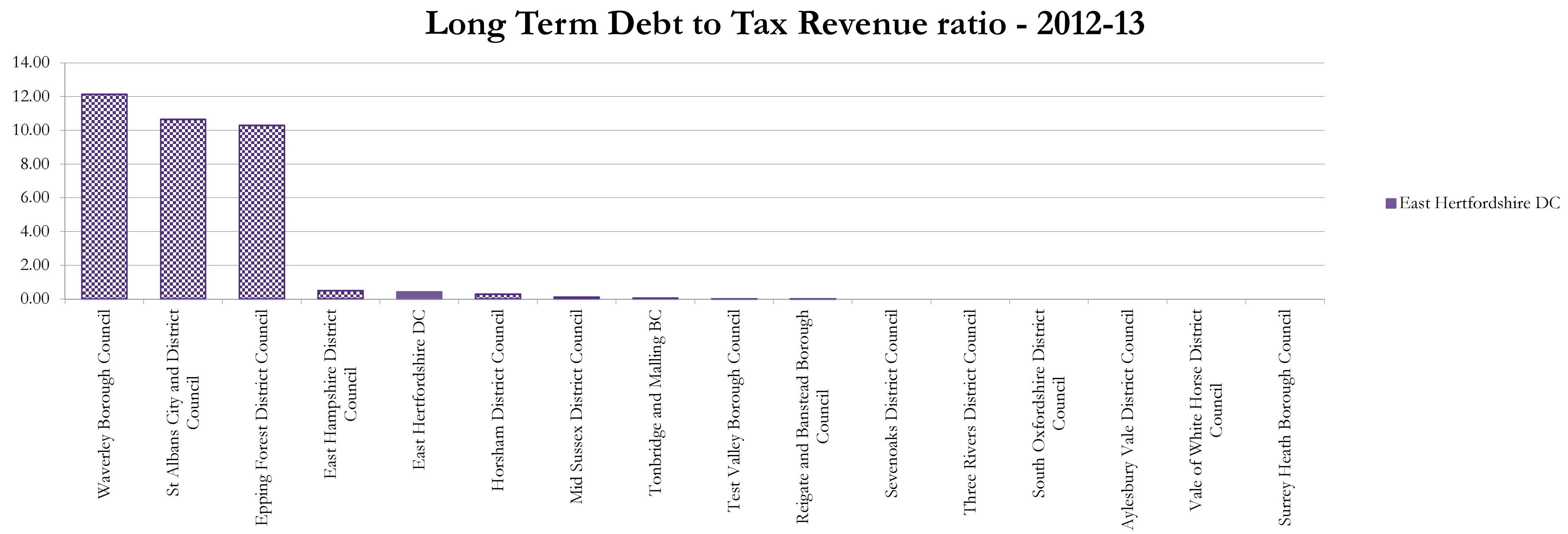
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

This shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

You have a low level of borrowings as a share of tax revenues when compared to other similar District Councils. Where future spending plans are funded by borrowing, the pace at which debt increases should be kept under review for affordability.



Source: Audit Commission's Technical Directory