

The Audit Plan for East Hertfordshire 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 2015

June 2015

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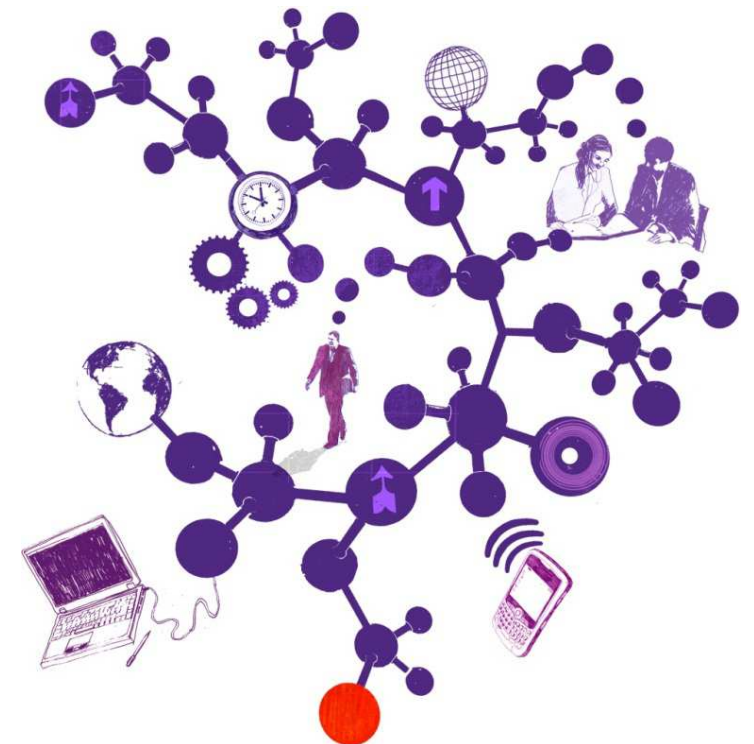
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

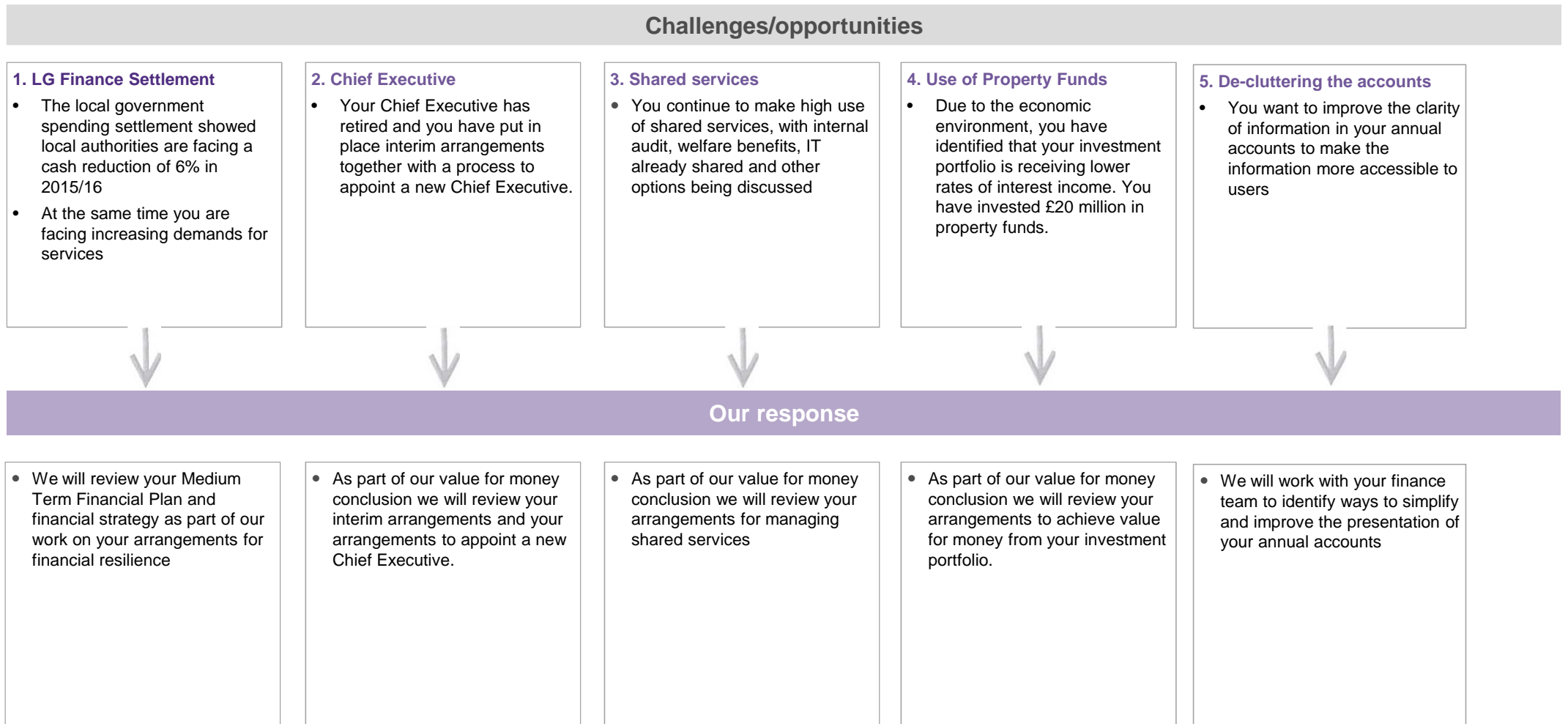
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Understanding your business

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



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

Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)
- Future changes announced in relation to accounting for transport infrastructure assets.

Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

Financial Pressures

- Managing service provision with less resource within a changing environment
- Progress against savings plans

Other requirements

- 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

We will review whether:

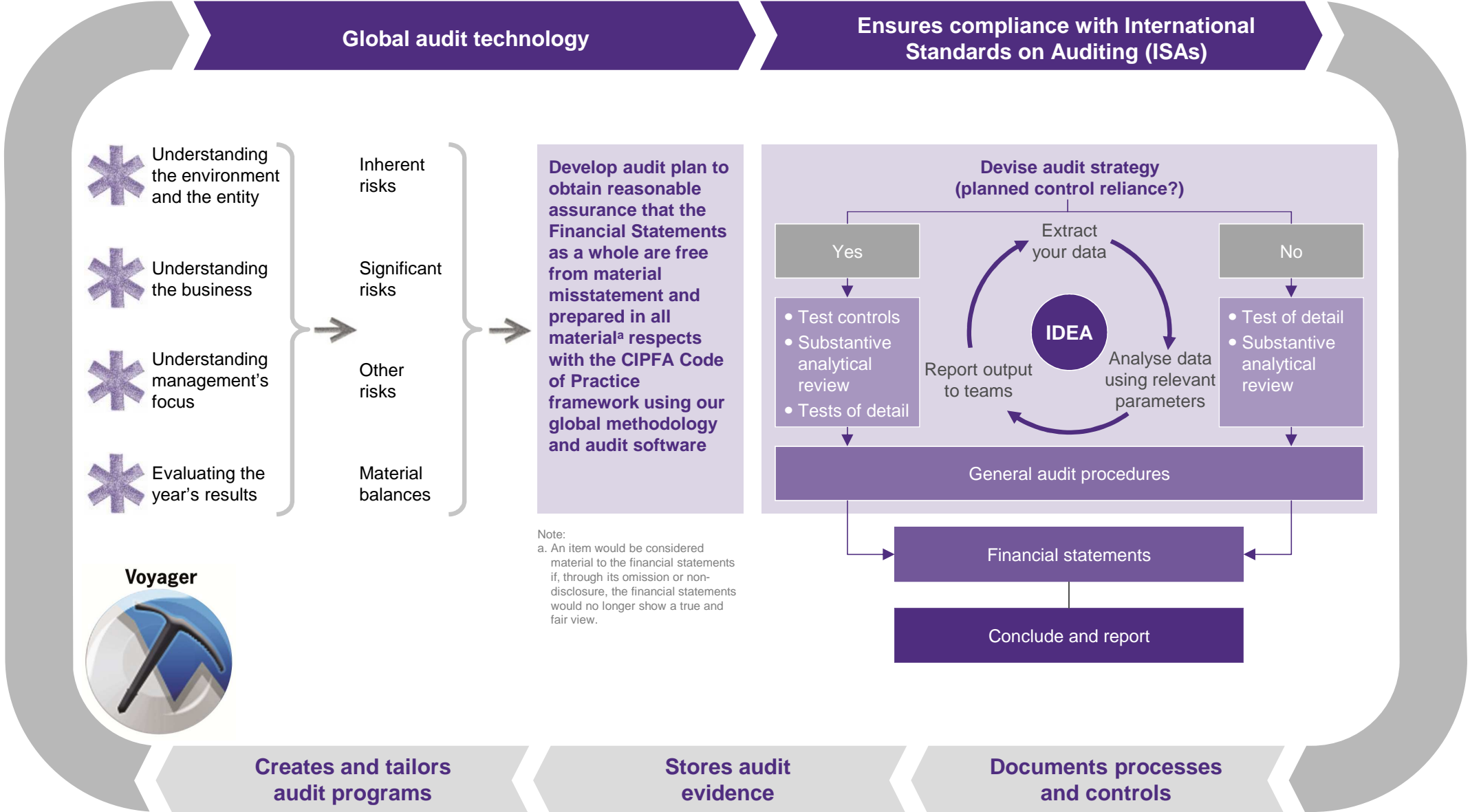
- you comply with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- your group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly
- appropriate processes are in place in preparation for the change in basis for valuation of infrastructure assets through discussions with management.

- We will review the arrangements you have in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge of your business

- We will review your performance against the 2014/15 budget, including consideration of your performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification

Our audit approach



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • your culture and ethical frameworks mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Initial testing of journal entries • Initial review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Consider the outcomes from accounting estimates, judgments and decisions made by management • Finalise testing of journal entries • Finalise review of unusual significant transactions

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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of operating expenses system • Initial substantive testing of material expenditure streams <p>Further work planned:</p> <ul style="list-style-type: none"> • Complete substantive testing of material expenditure streams • Review post year end expenditure for unrecorded liabilities • Substantive testing of year end payable balances.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of employee remuneration system • Initial substantive testing of payroll payments. <p>Further work planned:</p> <ul style="list-style-type: none"> • Complete substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's terms of employment and deductions are correctly calculated. • Testing the year end reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems • Testing of senior officer remuneration and exit packages.

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:

- an assessment of your 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
- a review of your investment plans, specifically the use of property funds and reserves
- review of on-going arrangements to strengthen budget setting and monitoring
- follow up compliance with the Reserves Policy
- follow up on progress made on significant control gaps from prior year Annual Governance Statement
- review of your interim Chief Executive arrangements and your arrangements to appoint a new Chief Executive
- follow up on strategic initiatives in place such as shared services

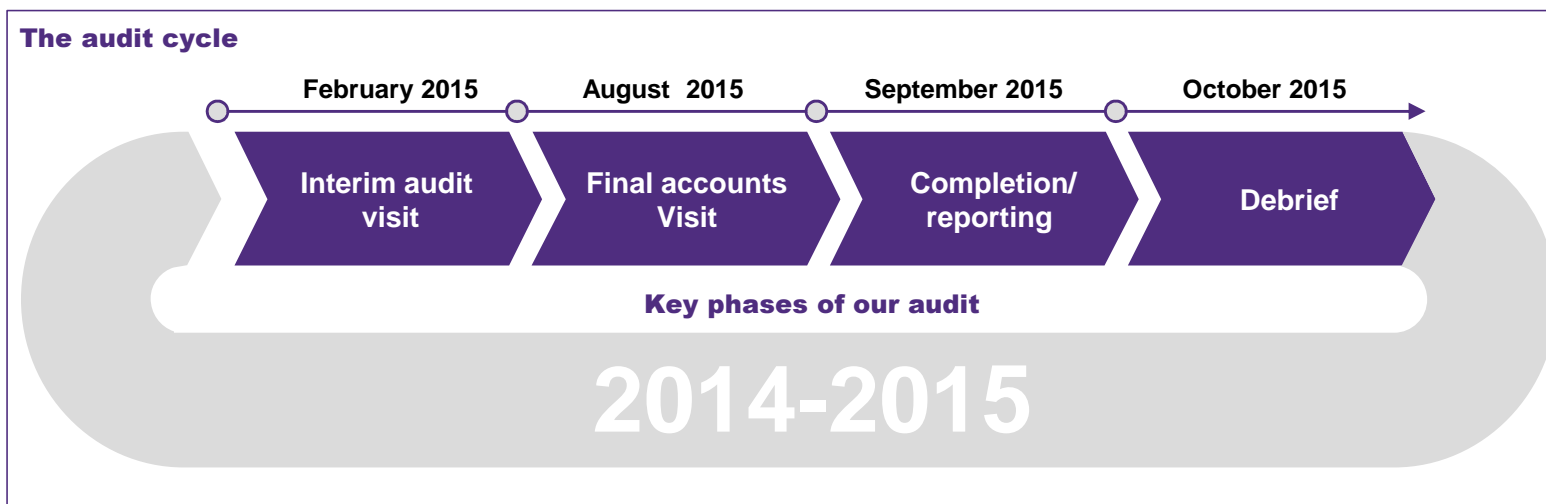
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

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 against the Public Sector Internal Audit 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 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, being employee remuneration and operating expenditure.</p> <p>Our work has identified a system weakness which allows one member of staff to self authorise purchase orders. This is a fraud risk and also enables fictitious creditors to be raised.</p> <p>We have undertaken additional procedures and we have</p> <ul style="list-style-type: none"> confirmed that the issue relates to systems access and we did not identify any further members of staff with access to self-authorise purchase orders. reviewed all purchase orders raised by the relevant member of staff. Only one purchase order had been raised and our review of that purchase order did not identify any issues. 	<p>Our work has not identified any weaknesses which impact on our audit approach except for:</p> <ul style="list-style-type: none"> Systems access enabling one member of staff to self authorise purchase orders.
Entity level controls	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>Our work to date has not identified material weaknesses which are likely to adversely impact on your financial statements</p>

Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
July 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to the Audit Committee
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	69,775
Grant certification	7,940
Total fees (excluding VAT)	77,715

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 your activities, have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

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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